

THE CONTINENTAL CORPORATION

Annual Report 1975



Malpractice coverage is a critical problem for the medical profession, hospitals and insurers.



Diners' Club, one of the leading travel and entertainment card companies, celebrated its 25th anniversary in 1975.



Energy development is a high value, high risk growth market for MOAC and its affiliate, All American Marine Slip.



Capital Financial now occupies a new corporate headquarters building at Columbus, Ohio.

The Continental Corporation

The Continental Corporation is a diversified financial company with major ownership interests in the fields of property, casualty, life and title insurance; convenience credit, premium and consumer finance; reinsurance, underwriting management, claim and loss adjustment, data processing and specialized business systems. Its principal subsidiaries include The Continental Insurance Companies, National-Ben Franklin Life Insurance Corporation, National Life Assurance Company of Canada, American Title Insurance Company, The Diners' Club, Inc., AFCO Credit Corporation, Capital Financial Services, Inc., Marine Office-Appleton & Cox Corporation, Underwriters Adjusting Company and The INSCO Systems Corporation.

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Financial Highlights

	December 31		<u>Percent Change</u>
	<u>1975</u>	<u>1974*</u>	
	(000 omitted)		
FOR THE YEAR			
Total Revenues	\$2,117,744	\$1,793,726	+ 18%
Net Investment Income	163,991	147,441	+ 11%
Income Before Realized Capital Losses	87,618	86,178	+ 2%
Net Realized Capital (Losses) — After Taxes	(1,055)	(31,505)	
Net Income	86,563	54,673	
AT YEAR END			
Consolidated Assets	4,774,208	4,068,887	+ 17%
Shareholders' Equity	1,198,361	957,254	+ 25%
PER COMMON SHARE			
Income Before Realized Capital Losses	\$ 3.29	\$ 3.24	
Net Realized Capital (Losses)	(.04)	(1.25)	
Net Income	<u>\$ 3.25</u>	<u>\$ 1.99</u>	
Shareholders' Equity ⁽¹⁾	<u>\$ 44.06</u>	<u>\$ 34.57</u>	

(1) After deducting liquidation value of \$50 a share for Series A and Series B preferred stock.

Quarterly Review

Quarter	EARNINGS PER SHARE				DIVIDENDS PER SHARE			
	Income Before Capital Losses		Net Income		Common		Preferred	
	1975	1974*	1975	1974*	1975	1974	1975	1974
1st	\$.93**	\$ 1.27	\$.94**	\$ 1.31	\$.65	\$.60	\$.62½	\$.62½
2nd	.86	.21	.95	.24	.65	.60	.62½	.62½
3rd	1.06	1.04	1.08	1.11	.65	.60	.62½	.62½
4th	.44	.72	.28	(.67)	.65	.65	.62½	.62½
Year	\$3.29	\$3.24	\$3.25	\$1.99	\$2.60	\$2.45	\$2.50	\$2.50

* Restated to reflect the change made in 1975 in accounting for catastrophe losses — see Note 2 to the consolidated financial statements. The effect of the change was to increase previously reported earnings by \$.01 per common share for the first, third and fourth quarters of 1974 and to decrease previously reported earnings by \$.25 and \$.22 per common share for the 1974 second quarter and year, respectively.

** Restated from originally reported amount of \$.95 per common share (Income Before Realized Capital Losses) and \$.96 per common share (Net Income) to reflect retroactive application of change in accounting for catastrophe losses in accordance with revised guidelines set forth in Statement of Financial Accounting Standards No. 11 issued in December 1975.



To Our Shareholders:

1975 was in many ways the worst year ever experienced by the property and casualty insurance industry, with total underwriting losses estimated to exceed \$4 billion. Thus, with 84 percent of our total revenues being derived from property and casualty operations, the year was a difficult one for The Continental Corporation. Nevertheless, we fared considerably better than many of our competitors and I feel there has been a gradual, discernible turn in the underwriting cycle.

So far as the overall results are concerned, our earnings improved slightly over the previous year, totaling \$87.6 million exclusive of capital gains, or \$3.29 per share, up from \$86.2 million, \$3.24 per share, in 1974. In addition we realized net capital losses of \$1.1 million in 1975, or four cents per share, compared with a capital loss of \$31.5 million, \$1.25 per share, the previous year.

The improvement in 1975 results comes largely from the continued rise in net investment income which reached a record level of \$164 million in 1975. This represented an increase of 11 percent. The problems that concern us are insurance underwriting problems. And they can be measured by the statutory underwriting loss for the year of \$120.5 million and a combined loss and expense ratio of 105.5 percent. The losses were most dramatic in worker's compensation insurance and in the general liability lines.

Measures to restore this most important aspect of our operations to health were set in motion early in the year and accorded absolute priority throughout the organization. Because of a perceived inadequacy in the case reserves in these lines and in the automobile account, we strengthened the bulk reserves by \$25 million at year end.

The underwriting losses stem primarily from three sources: the effects of inflation, difficulties encountered in obtaining rate relief in some categories of our business in certain states, and the explosion nationally in awards and litigation to which we are witness.

The rate of inflation in the overall economy has unquestionably slackened — although for how long this will be true is far from certain. Inflation in those categories of goods and services that are particularly important to the insurance business, however, has not moderated to the same extent if, in fact, it has moderated at all. The costs of medical care, auto parts and auto repairs continue to climb almost unchecked, and these are the goods and services of primary influence on the amounts of the insurance claims we pay.

Our need for higher premium levels from which to pay these climbing claims costs is critical. Progress has been made, however. You will find a detailed analysis of that progress in the Property and Casualty Review section that follows.

The third problem area, the system by which accident victims are compensated, has been forcibly brought to

public attention because of the much publicized difficulties being encountered by the medical profession and the hospitals of this nation in securing the liability insurance they need. So far, it is the system of medical practice that has been most affected, but the other professions are not immune. And the future is equally grim for the manufacturer, the wholesaler and the retailer as the outer limits of the concept of product liability are explored.

Some fundamental decisions face us in these areas of social and economic activity. I see no alternative to the introduction of modifications in the reparations system. Perhaps some of the incentive to litigate should be curbed, and this may well involve a change in the methods under which the plaintiff's bar is compensated. The need is very great and half-measures will do no more than buy time. We should learn from the so-called No-Fault plans, adopted by the various states to alleviate similar difficulties in the auto insurance system. Unfortunately, many must be characterized as partial solutions and as a result we see those difficulties recurring.

Remedial action was stepped up as the various pressures were identified during the year. In time, the underwriting experience should reflect improvement. Nevertheless, the impact of continuing inflation and changing social attitudes can make the task difficult.

Premium writings were up sharply during the year, partly as a result of higher charges for many of the insurance lines we write, but also because business flowed to us from other insurers forced to curtail their writings due to limitations posed by the size of their capital account. This was acceptable — and desirable — so long as the business was offered to us on a sound basis. As a result, written premiums rose 22 percent to \$1.75 billion.

The Reinsurance Group contributed \$4.9 million in pre-tax earnings. Of this, however, \$2.8 million represents the inclusion of fifteen months of operations of Security Reinsurance Corporation and National Reinsurance, rather than the customary twelve. This results from an updating of the term reported. Formerly our reinsurance accounts were consolidated as of September 30. Quicker access to the results will now permit consolidation based upon the entire year. The record of the Reinsurance Group, so far as underwriting experience is concerned, reflected the losses being sustained by so many primary insurers. Our mix of business —emphasizing property insurance over the liability lines, and balanced as it is between the domestic and overseas markets — should lend itself to near-term correction.

The Title Insurance Group, in turn, reflected what was happening in the real estate business which, unfortunately, was very little. With a large unsold inventory of housing hanging over the market, with mortgage interest rates starting the year at record levels, and with ecological considerations acting as at least a temporary deterrent, housing starts were at an extremely depressed level. Nonetheless, the group was able to better its 1975 record slightly, contributing pre-tax earnings of \$3.1 million, up from \$2.4 million in 1974. The year closed strongly, providing some basis for optimism that a recovery in the volume of real estate transactions is not far off.

The Life Insurance Group once again recorded healthy gains, contributing \$7.7 million in pre-tax earnings. National Life of Canada reported sharply increased earnings largely due to better results from group health business.

The Financial Services Group, with \$11.2 million in earnings before taxes, benefited from the decline in the cost of borrowed money. Diners' Club became a wholly-owned subsidiary during the year. Capital Financial Services moved into a new, efficient headquarters building in Columbus and installed electronic data terminals in each of its retail locations. AFCO Credit Corporation made significant gains both in the volume of premiums financed and in profit margins.

The Insurance Services Group reported profitable operations and healthy growth. Pre-tax earnings totaled \$9.7 million. Underwriters Adjusting Company has developed broad acceptance for its services; good growth

potential exists in serving insurance companies and self-insureds.

On the investment side of our operations, sharply increased cash flow from our increased writings and continued high yields on fixed income securities contributed to record investment income for the Corporation. Portfolio values also benefited during the year as the securities markets mounted a sharp recovery. As a partial measure of this improvement, the shareholders' equity of the Corporation rose from \$957.3 million at the end of 1974 to \$1.2 billion by December 31, 1975. At all times, surplus has been more than sufficient to justify the volume of insurance written by our insurers.

The annual dividend rate of \$2.60 per share of common stock was maintained. After year-end, on January 22, the directors approved an increase which, if continued, will develop a rate annually of \$2.80. This action reflected our sound capital position and the continued increase in investment income.

Also just after year-end we concluded an agreement with the Insurance Corporation of Ireland, Ltd. to acquire a 10 percent equity position in that company. This investment supplements several joint projects already underway between the two organizations.

An important corporate development, one concluded late in the year, was the acquiring of the small minority interest outstanding in our Diners' Club

subsidiary. Now wholly-owned, Diners' Club will be spared many corporate expenses and chores formerly made necessary by the outside holdings. Charles F. Barber, Chairman of ASARCO, Inc., was elected to the board of directors in March to fill a vacancy left by the death of Frederick E. Jones. At the annual meeting in April, seventeen directors were re-elected to one year terms on the board. Joining them for the first time was John F. McGillicuddy, president of Manufacturers Hanover Trust Company in New York. We are grateful for the services rendered over the years by Joseph Weintraub, chairman of Pan American Bancshares whom Mr. McGillicuddy replaces.

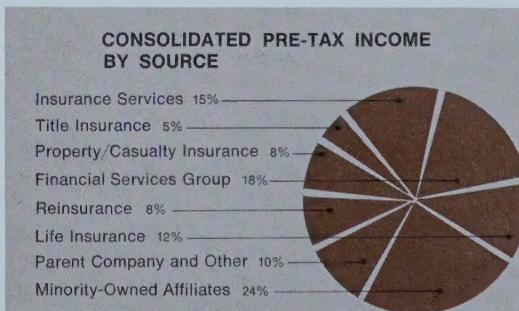
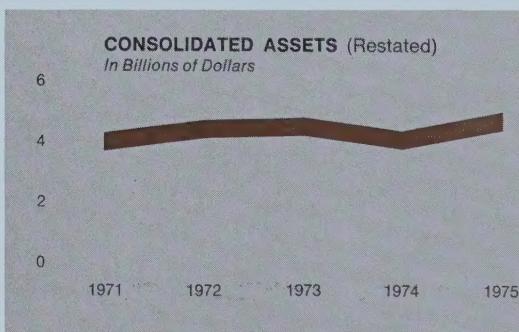
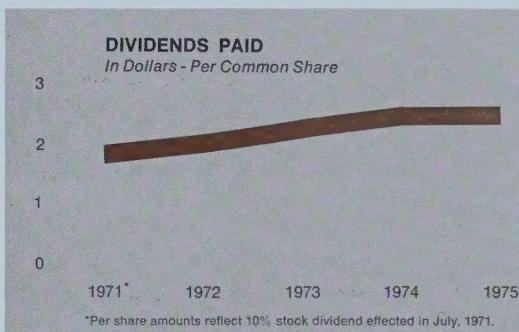
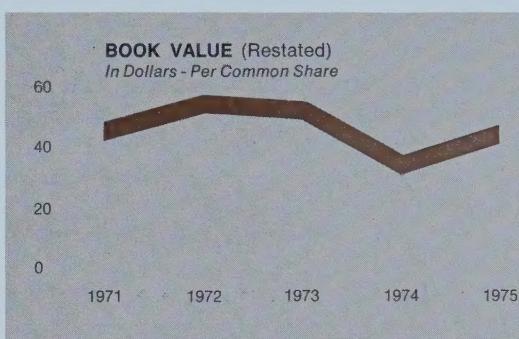
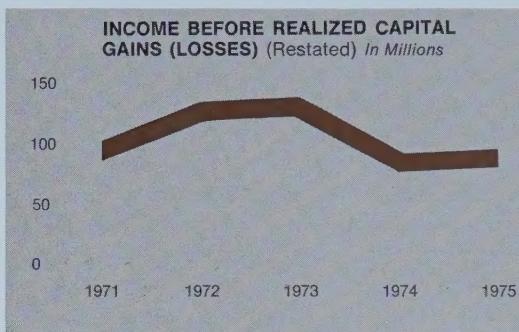
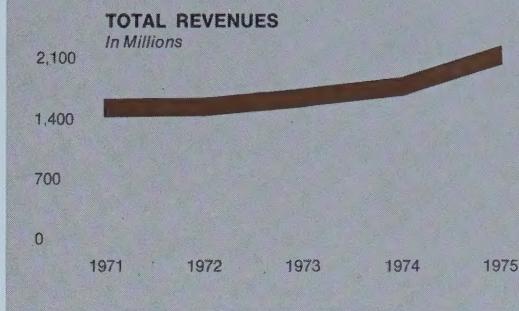
By the time you receive this report, I will have moved to the post of Chairman of the Executive Committee. John B. Ricker, Jr., a most capable executive, succeeds to the post of Chairman and Chief Executive Officer. He retains his title of President.

As we enter upon the bicentennial year of our nation's founding, The Continental Corporation can look back on having weathered 122 years of varying underwriting and financial fortunes. The Corporation is in an exceptionally strong position. The equity investment portfolio has made a fine recovery and our competitive position

has been strengthened by the adversities that have recently been visited on the entire property and casualty insurance industry. A stronger economy, higher insurance rate levels and better earnings in several of Continental's financially oriented subsidiaries provide the basis for some optimism as respects operations in 1976.

In closing this letter, my last as Chairman, I express my appreciation to our directors, officers, members of the staff, agents and brokers for their dedicated efforts on behalf of the companies and the Corporation.

Nathan H. Wentworth
Chairman of the Board
January 1976



Review: Property/Casualty Insurance Group

The Continental Insurance Companies write all kinds of property and casualty insurance for individuals, institutions and business firms. Ranked as the sixth largest multiple line insurer in the United States, the group is a leader in such specialized fields of coverage as bonding, professional group accident and health coverage, commercial credit, marine and aviation insurance. Today, more than 14,000 independent agencies represent Continental Insurance throughout the country. Business operations are decentralized through eight departmental offices located in principal cities, with another 133 offices to service policyholders and agents. International business is handled through Continental's offices here and overseas, through those of joint venture companies and through the extensive office network of Phoenix Assurance Company, Ltd. in which Continental has a 20 percent interest.



The Continental Insurance Companies

Continental's property and casualty premium writings in 1975 totaled \$1.75 billion, an increase of 22.4 percent over 1974. The combined loss and expense ratio was an unsatisfactory 105.5 percent, approximately the same as in 1974, also a disappointing year. Rate levels in effect during 1975 simply were not adequate to offset the general worsening in loss ratios. A substantial part of the deterioration was attributable to continuing inflation — although at a diminishing rate as the year progressed. In addition, business prudence dictated a further strengthening of reserves in recognition of generally adverse claims experience among insurers and the possible effect on our companies' loss reserves. The additional reserve strengthening increased our combined ratio in 1975 by 1.5 points bringing it to 105.5 percent which was the same as in 1974 after restating that year for the elimination of the catastrophe résérve.

Fortunately, catastrophe losses were not of the magnitude of those experienced in 1974. Total losses from all catastrophes were \$16 million in 1975 which produced an impact of one point in the overall loss ratio. It must be kept in mind, however, that Continental is in the business of insuring catastrophe exposures and fully expects to participate proportionately over the years in the catastrophes that occur with an almost predictable degree of regularity.

As underwriting experience began to deteriorate in late 1974, Continental moved to raise rates where needed and to establish a higher ratio of insurance to insurable values on property risks. This program continued at an accelerated pace throughout 1975, and results were clearly evident by year end. Of the 22.4 percent increase in premium volume in 1975, approximately one third came from new business. The remainder was attributable to increased amounts of insurance on in-force business and to higher rates. However, the full benefit of increased rates on annual policies is not realized until a year or more after the higher rates are established and over a proportionately longer period for policies issued for terms in excess of one year.

Obviously, these strong efforts were not strong enough as indicated by the continuing underwriting loss. In consequence, additional rate increases for unprofitable lines will be implemented in 1976. Other steps have been taken to improve underwriting results and will continue. The practice of writing insurance policies for terms longer than one year with a rate guarantee for the full policy term is being greatly reduced. Rates for most classes of business are now generally being adjusted to prevailing levels no less frequently than annually. In certain lines of insurance, policies are written on a three or six month basis with the then current rates used on renewal.

Continental has also moved to make maximum use of its computerized Homeowners program which permits an automatic adjustment to higher insured values at each policy renewal. It is estimated that this program along with similar non-computerized efforts

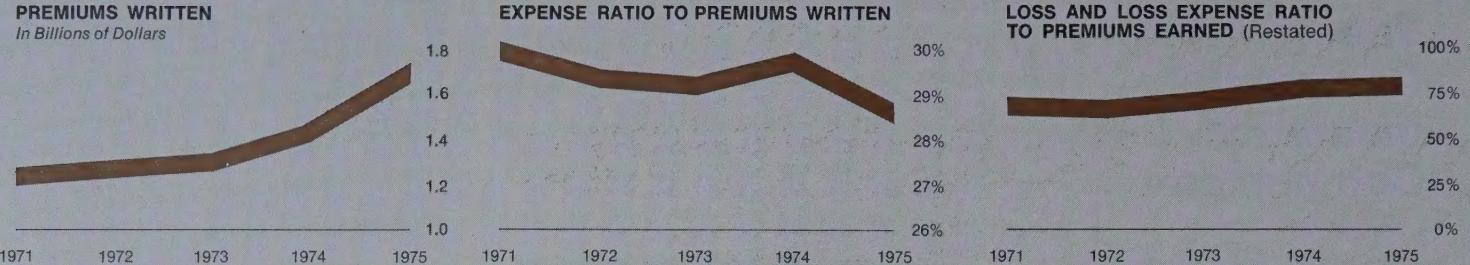
will add eight percent to 10 percent to premium volume across the property lines and help to achieve proper insurance to value in the face of inflation. Use of direct billing procedures have been expanded to speed up the flow of premiums to our companies, advancing the time when premium revenues are available for investment. In a period when the costs of all goods and services are increasing sharply, the control of expenses becomes even more difficult — and more important. In 1965 our ratio of expenses to premiums written was 36.6 percent. In 1975 it was 28.5 percent but further reduction becomes progressively more difficult to achieve. At the current level of premium writings each one-tenth of a point reduction is equal to approximately \$1,800,000 in expense saving. Thus further reduction in expenses constitutes a very attractive goal and Continental's entire staff is contributing to the effort to maximize productivity through increased efficiency.

Underwriting Experience by Major Lines of Insurance

As reviewed in the table on page eight, underwriting losses were experienced on all major lines of insurance in 1975 except fire and allied lines, commercial multi-peril, ocean and inland marine, surety and accident and health.

. . . Historically, fire and allied lines have been profitable for Continental except in years of unusually severe natural catastrophes. The companies' capabilities in property insurance underwriting has been considered one of

PREMIUMS WRITTEN
In Billions of Dollars



**ANALYSIS and summary by category
of Continental property and casualty writings.**

	Earned Premiums	Loss and Loss Expense Ratio to Earned Premiums	Expense Ratio to Written Premiums	Combined Ratio
FIRE AND ALLIED LINES — Continued profitable underwriting. Moderating weather patterns helped. Efforts to secure higher ratios of insurance to insurable values have been beneficial to insureds and to the companies.	\$ 190.6 million	61.4%	38.3%	99.7%
COMMERCIAL MULTI-PERIL — Very satisfactory results despite intense price competition early in the year.	\$ 161.8 million	60.5%	30.9%	91.4%
HOMEOWNERS — Campaign to secure increases in policy amounts and in rates helped to reduce underwriting loss but continued effort obviously necessary.	\$ 123.9 million	71.3%	33.3%	104.6%
OCEAN MARINE — Substantial improvement from 108.4% combined ratio in 1974. Underwriting adjustments, insistence on adequate rates pay off. Hull underwriting continues to lag behind ocean cargo.	\$ 107.2 million	76.7%	21.8%	98.5%
INLAND MARINE — A traditionally profitable line at Continental. Both growth and underwriting performance very satisfactory.	\$ 63.0 million	57.8%	29.3%	87.1%
A & H — Some decline, but continues profitable. Disability income coverage adversely affected by high unemployment. Recent years' deemphasis of medical expense coverages proves sound as medical costs soar.	\$ 94.2 million	66.5%	29.0%	95.5%
FIDELITY — Difficulties continue, particularly with multi-national companies, as white collar crime continues at high level. Underwriting controls intensified, with insistence on higher premiums.	\$ 14.2 million	78.3%	35.0%	113.3%
SURETY — Continental unusual in the industry for its good contract bonds experience. Premium volume maintained in spite of curtailed public works expenditures. Volume in miscellaneous surety lines, traditionally profitable, increased by 40%.	\$ 11.3 million	41.8%	44.6%	86.4%
COMMERCIAL AUTO — Truck and private passenger auto fleets encounter the highly adverse combination of severely inflated medical costs and auto parts and repairs.	\$ 158.6 million	85.3%	27.5%	112.8%
PERSONAL AUTO — The same conditions with much the same impact. Efforts to obtain needed rate increases well along, but effect of this follows by many months.	\$ 259.0 million	84.4%	27.6%	112.0%
WORKER'S COMPENSATION — A problem category as benefits and medical costs rise sharply, beyond the levels contemplated in the rates.	\$ 243.5 million	95.9%	18.4%	114.3%
GENERAL LIABILITY — Similar difficulties, compounded by an unsatisfactory system for determining reparations. Most dramatically clear in professional malpractice category but products liability deteriorating rapidly.	\$ 150.3 million	93.5%	27.3%	120.8%
OTHER — These include miscellaneous lines such as aviation, credit, glass, burglary, boiler and machinery and others, all subject to diverse influences.	\$ 74.1 million	67.3%	29.2%	96.5%
TOTAL	\$ 1,652 million	77.0%	28.5%	105.5%

Continental's strengths. A continuation of satisfactory results is anticipated with further improvement expected from expansion of the insurance-to-value programs.

... Overall multi-peril results were marginally profitable due principally to favorable experience in the commercial multi-peril lines but Homeowners experience continued unprofitable in 1975 with a combined loss and expense ratio of 104.6 percent. Upward rate adjustments put into effect in 1975 ranged as high as 20 percent in some states, with the overall effect on 1975 Homeowners writings countrywide estimated to be approximately seven percent. Further substantial Homeowners rate increases are projected for 1976. The effort to obtain increased amounts of insurance in relation to values has been particularly intensive in this category. Homeowners underwriting results in the third and fourth quarters of 1975 showed significant improvement, providing the basis for some optimism regarding the outlook for 1976.

... Automobile results, both personal and commercial, were poor and must be improved. Rates for commercial

automobile liability and physical damage were increased more than 15 percent during the year, with an actual impact on 1975 premiums of approximately eight percent. For private passenger automobile liability and physical damage, the rate increases were about 14 percent with an effect upon 1975 premium volume of approximately six percent. These rate adjustments and additional ones already scheduled for 1976 will increase commercial automobile premiums, both liability and physical damage, by approximately 11 percent. Their upward effect on 1976 private passenger automobile liability and physical damage premiums will be approximately 15 percent and seven percent respectively. These percentages will rise during the year as further increases are effected.

... In common with other insurance companies, the greatest problem areas for Continental Insurance in 1975 were worker's compensation and general liability.

Worker's compensation premiums accounted for approximately 15 percent of Continental's book of business last year. The underwriting losses stem primarily from the soaring costs of medical care, costs beyond those contemplated in the rates, and also from a situation in which a number of states have legislated more liberal compensation benefits but have delayed the rate increases needed to pay for the increased claims. The countrywide effect of upward rate adjustments in 1975 was approximately 11 percent, and further increases already are scheduled for 1976.

... General liability includes classifications such as the owners, landlords and tenants form of liability coverage as well as manufacturers & contractors liability. These pose no particularly difficult long range underwriting problems, although experience in these lines was unprofitable in 1975.

The effect of 1975 rate increases for owners, landlords and tenants liability insurance was 35.6 percent and for manufacturers & contractors liability 26.8 percent. Further increases are projected for 1976.

The general liability category also includes professional liability — which embraces the liability of physicians and surgeons, hospitals, accountants, architects, engineers, dentists, nurses and lawyers, etc. — and product liability, the liability incurred by manufacturers, wholesalers and retailers for the products they manufacture or help distribute. Both classes were unprofitable in 1975 for Continental, as they were for other insurers. Accumulated rate increases were significant. Their projected effect, by category: hospital malpractice — up 67 percent — physicians and surgeon's malpractice — up 73 percent — and products — up 100 percent. Additional substantial increases will be effected in 1976 on these lines and the volume of writings will be monitored carefully.

Continental has approached the general liability category with caution for a number of years, and this caution is being intensified. Continental's writings in the professional liability and

The Problem of Insuring Professional Malpractice

products liability categories are modest in the context of the total book of business. This relatively low exposure in these lines will be maintained.

Personal Comprehensive Protection

In any year, even one as difficult as 1975, a healthy company can identify a variety of encouraging developments, and Continental had a number of causes for optimism last year.

A principal one was the progress achieved in establishing Continental's PCP policy — Personal Comprehensive Protection — as the premier, packaged insurance for American families. Introduced in April 1973, the PCP wraps up a family's homeowners insurance, automobile coverage, accident and health, disability and mortgage life protection in one attractive, easy-to-read plan. Writings of the new policy passed the \$34 million mark last year, up from \$13 million in 1974. Loss experience to date has been very satisfactory — although as with any new category of insurance it is necessary to suspend judgment until the loss experience matures. Importantly, about 75 percent of all new PCP premiums are from policyholders not previously insured by Continental, demonstrating that we are actually developing new markets and reaching new customers with this program — a program which so far has not been duplicated on any significant scale by our competitors.

The PCP's ready acceptance stems from several factors. The insurance buyer is attracted by the broadened coverage and the fact that PCP clearly offers more insurance for the money. Agents and brokers are enthusiastic because of the obvious benefits that flow from customers who are better protected, but also because the policy — with a combined annual premium that averages more than \$500 — lends itself to efficient, profitable marketing.

As sales accelerate, Continental anticipates the economies that flow from volume. Automation of the PCP policy-writing is in process, with completion scheduled for 1976. This is a costly procedure, but one that is fully justified by the premium level already achieved. Although the PCP has gained ready acceptance by both agents and consumers, acceptance by state regulators has been less than complete. Consumers in Kansas, Louisiana, Massachusetts, Mississippi, North Carolina and Texas are unable to purchase this protection because the policy has not yet been approved in those six states, after some three years of successful operations in the other 44 states. Continental is hopeful that progress can be achieved on this during 1976.

Regulation and Insurer Solvency

Despite the huge underwriting loss suffered by the insurance industry as a whole in 1975, lively competition for business continued throughout the year — too often at rate levels that were, in our view, clearly inadequate. And if unreasonable competition served to depress certain rate levels, others were rendered inadequate by the regulatory process.

In several important states — such as New Jersey and North Carolina — current regulatory practices reflect

The public is intensely aware that there exists a medical malpractice "crisis," with the medical profession finding it increasingly difficult to insure itself against its exposure to malpractice suits.

Unfortunately, the situation does no more than reflect the condition that has been allowed to develop in the system by which these matters are adjudicated. Nor is the medical profession alone in jeopardy — all of the professions are affected.

Professional liability, not long ago, was a reasonably low-cost legal defense policy with the premiums reflecting the prevailing level of litigation and awards. But we have seen a veritable explosion of claims and suits as the concept of legal liability has broadened, as people are more willing to sue, as juries liberalize their views and as the plaintiff's bar views the field as a new eldorado.

Skyrocketing awards, liability divorced from fault, and the high cost of settlement ultimately must be borne by the public . . . insurers are no more than the conduit by which they are returned. The situation is so grave there must be doubt that society can bear them. Change must be considered. At the very least, reform must include limitation on recovery of general damages, and admitting the findings of arbitration and peer review-proceedings in legal actions.

Until some cure is applied, the underwriting of these coverages will be restricted and premium quotations will continue to increase.

Of all professionals, the surgeon is probably the most vulnerable to malpractice suits and claims.



The Insurance Store

little understanding of the conditions necessary for the maintenance of a competitive and healthy insurance market. Continental is concerned about the possible outcome. Restricted insurance markets seriously affect both individual and corporate insurance buyers in those states. Another worrisome aspect is the effect of this kind of regulation on the financial well being of insurers having a large stake in those states.

A much more enlightened path has been followed by the many states that have amended their laws to permit insurance companies to establish their own rates, to use them immediately — without having them approved first by regulatory officials — and to compete freely against each other for the public's premium dollars. These are the so-called "open competition" states, where an open market is maintained and the public is benefited by having insurance available at prices that are determined competitively. It is hoped more states will soon adopt the principle of open competition.

Recently there has been discussion in the nation's capital concerning the possible repeal of the McCarran-Ferguson Act which provides some exemption to the insurance business from the federal anti-trust laws. Many practical problems must be solved before repeal could be undertaken. Meanwhile the advantages claimed for such a repeal could be achieved by wider adoption of open competition laws.

Since 1969 there have been 42 insolvencies of property and casualty insurance companies, including nine in Pennsylvania. The insurance-buying public did not suffer greatly as a consequence of these failures but only because of the existence of guaranty funds which have been mandated by all but three states. The cost of these

insolvencies which is borne by the insurance industry — and indirectly by the public — is in excess of \$100 million to date. Continental's share has been more than \$2.25 million. And looking at the future realistically, there could be additional companies unable to meet their underwriting commitments to their insureds — adding to the burden on the insurance buying public.

It is important for the public to be protected against company insolvencies. But in too many cases guaranty funds have served to support and encourage poor and irresponsible insurance company management at the expense of companies like Continental that place solvency and sound management above all other considerations, including making a profit. It must be remembered that the cost of the insolvency funds to Continental and its shareholders is in addition to the premium taxes paid by the Company to support a system of state regulation which has as a primary purpose the maintenance of solvency of the insurance companies being regulated.

No-Fault

Continental Insurance continues to endorse the concept of no-fault insurance in indemnifying the victims of automobile accidents. Much public attention is being paid, however, to the fact that state enacted no-fault laws have not performed as well as had been expected.

If you want hardware, go to a hardware store. If you want insurance, go to an insurance store. That logical progression, we believe, is beginning to change the way many people buy insurance and the way many independent agents market their services.

The marketing-oriented promotional campaign launched by The Continental Insurance Companies in behalf of The Insurance Store has been received with enthusiasm by insurance buyers and the independent agents who represent our companies. Dramatizing in easily understandable terms the advantages of buying quality insurance from an independent agent, The Insurance Store combines the advantages of national promotion with local, customized follow-through. Most importantly it gives the consumer sound, specific reasons for doing business with the agents who represent us, comparing the broad range of coverages, services and pricing available in The Insurance Store with the narrower facilities offered by the direct writing, "one agent-one company" system with which we compete.

Continental is providing its agents with Insurance Store promotions designed to attract customer traffic and inquiries. All the tools for successful, local promotion have been provided: newspaper ads, radio commercials, news releases, sales letters, mailing pieces and more.

More than half of Continental's agency force is participating in The Insurance Store program.



Unfortunately, of the 20 state-enacted legislative programs labeled as "no-fault," few have adequate provisions for the reduction of litigation, a reduction that is necessary if the system is to provide savings. In some states, the legislation enacted contained no limitations at all on the right to sue. In others, the limitations were so modest they actually create an incentive for a claimant to run up unnecessary medical expenses. The effect was simply to expand the benefits with no compensating reduction in expenses. Another obstacle no-fault has had to overcome was the fact that premium reductions were mandated in a number of states, including states in which there was an accumulated need for rate increases.

Continental believes that properly structured no-fault programs tailored to the needs of individual states continue to offer the nation its best opportunity for improving the system — provided that these programs are modified regularly to meet changing conditions and price levels.

Capacity

Property and casualty insurance companies are limited as to the amount of business they can write by the size of their policyholders' surplus. Some observers feel that a ratio of two-or-three dollars of premium volume for each dollar of surplus is acceptable, but this acceptability depends on the makeup of a company's investment portfolio and the kind of insurance it's

writing. The matter has had careful scrutiny by insurance regulatory authorities, particularly during the recent economic recession.

Despite the ups-and-downs of the securities markets, Continental's surplus has been more than sufficient for the volume of business being written. While new investments in 1975 were almost entirely of the fixed income type, the upward movement in market prices of equities continued. The relative proportions of common stocks and fixed income securities were 55 percent and 45 percent respectively as of December 31, 1975. Combined capital and surplus of The Continental Corporation at the end of 1974 was \$957.3 million. At the end of 1975 it was \$1.2 billion.

Premium volume for 1976 is projected at \$2 billion, an increase of 15 percent over 1975. It is anticipated that approximately two-thirds of this increase will be from upward rate adjustments and increased amounts of insurance, with the balance being from new business. This mix, in our judgment, is prudent and in keeping with our practice of conservative management. If Continental is to grow it must accommodate a steady flow of new business written on an acceptable basis. Continental has the capacity and the know-how to manage this continued growth.

Conserving Life and Property

Continental continues to place heavy emphasis on loss control and engineering services to assist its commercial and industrial policyholders in their efforts to identify those unsafe conditions that result in accidents and injuries. Property preservation, boiler and machinery loss reduction, potential hazards in the worker's job en-

vironment and product safety exposures all receive close attention.

Continental has loss control representatives located in more than 100 U.S. and Canadian cities. They, in turn, can call on trained industrial hygiene and loss control specialists officed in seven regional centers including an environmental health laboratory in Dallas.

The oldest specialty area in Continental's array of engineering services is the boiler and machinery category, in which the companies have been providing loss control services for ninety-nine years. 1976 marks the completion of our first century in that business.

Marine Office- Appleton & Cox Corporation

The year past was a very successful one for MOAC. Gross written premiums rose to \$232 million, a gain of 9.6 percent, while net written premiums in 1975 reached \$190 million, a 7.3 percent gain.

Most satisfying, however, was an \$8.5 million underwriting profit, reflecting a combined loss and expense ratio of 95.4 percent, compared with 104.1 percent in 1974.

Increased writings of cargo and transportation coverages, traditionally profitable for MOAC, contributed importantly to these improved results. Substantial rate increases for such unprofitable classes as river risks and marine liability coverages also helped. Hull business, both syndicate and direct, continued unprofitable because of inadequate rates and overseas competition. Inflation's effect was evident as ship repair costs around the world increased substantially during 1975.

Most MOAC offices contributed to these improved results. Large increases in business came from the southwest and midwest in the United States and premiums from international sources increased more than 20 percent.

All American Marine Slip, an underwriting pool which insures offshore drilling rigs and other high value risks, had a \$3 million underwriting profit on writings which increased to \$29 million during the year. MOAC manages the pool's business on a fee basis and participates in its profits.

Cotton Fire & Marine Underwriters, another MOAC operation, operated profitably with premium writings of \$4.5 million. Hull & Cargo Surveyors and U.S. P. & I. Agency were also profitable.

MOAC's substantial underwriting profit was achieved in a year in which the industry as a whole did not do well. Inadequate rates, excess capacity and inflation continue to play an adverse role in the world market. Despite this unsettled situation MOAC will aggressively seek new business. It has several advantages that make it an attractive market to producers. Chief among them are its financial capacity and the consistency of its approach to underwriting problems and opportunities. A highly competent staff, situated in 55 offices, also contributes to MOAC's excellent reputation in marine insurance. In 1975, MOAC opened four new offices to enhance this already substantial capability: in York, Pa., Huntington, W. Va., Birmingham, Ala. and Denver, Colo.

Geared up for a substantial increase in profitable business, MOAC looks forward to the second half of the 1970's with great anticipation.

Energy Development

Energy development is a matter of high national priority and a big business that is going to get bigger. This is important to The Continental Corporation because MOAC and All American Marine Slip are important factors in the insurance of risks in this field.

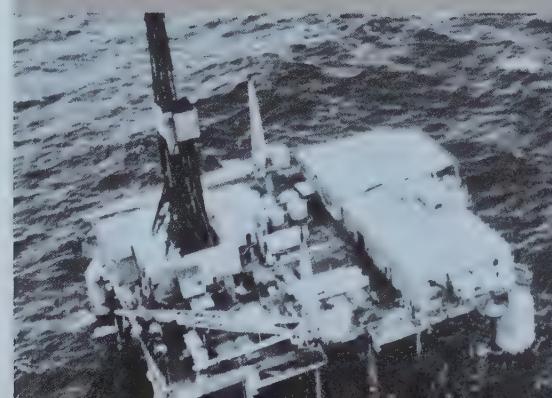
Experts say that over the next five years the most active areas of energy development in the United States are expected to be in coal and offshore oil exploration.

MOAC is the leader in insurance for coal mining properties and equipment — augers, tipplers, payloaders, dump trucks and other gear. Because of MOAC's experience and competence in this specialized field of insurance, it stands ready to insure the new generation of equipment which is on the way.

In the world today there are approximately 300 offshore drilling rigs worth approximately \$4 billion. Many observers believe that by 1985 some 500 to 600 units will be in operation. This is a big and growing market for All American Marine Slip which specializes in underwriting these high value risks. It is anticipated that the written premiums for AAMS, which totaled \$29 million in 1975, will reach \$50 million before 1980.

A changing world implies both problems and opportunities. MOAC and AAMS are well equipped to handle both in the growing field of energy development.

The growing world population of offshore oil rigs is a large market for All American Marine Slip, a MOAC affiliate.



Review: Title Insurance Group

Both buyers and sellers of real property want a convenient and quick conveyance of title. Insurance makes this possible by agreeing to indemnify the insured against future economic loss owing to existing, but undiscovered defects in the title. This is a simple premise but it fills an important need. Title conveyances in the United States are accomplished in days; in countries where title insurance is not available, such transactions take weeks or months. American Title Insurance Company is a national leader in this form of insurance which does so much to alleviate one of the basic problems of property ownership.

FINANCIAL HIGHLIGHTS

American Title Insurance Company

	1975	1974
(000 omitted)		
Premiums and fees earned	\$20,349	\$23,049
Losses and expenses... .	18,383	21,660
Adjusted underwriting profit	1,966	1,389
Net investment income. .	1,153	1,053
Pre-tax income	\$ 3,119	\$ 2,442
Net assets	\$19,915	\$18,425

American Title Insurance Companies

Consolidated pre-tax earnings for American Title Insurance Company were \$3.1 million in 1975. This compares with \$2.4 million in 1974.

A title insurer's experience is tied directly to the condition of the real estate markets and during the first half of 1975, those markets bogged down. A number of adverse factors came together to create one of the most depressed sectors of the national economy.

There were indications that the one-family house was being priced out of the reach of buyers, particularly young-marrieds. In the period 1965-75, gross median family income doubled but local property taxes tripled. The median price of new houses increased 95 percent.

Overbuilding had resulted in a large, unsold inventory of expensive housing and though demand had dropped, new home prices remained high, reflecting the inflated cost of land, building materials and labor. As if prices were not sufficient disincentive to buy, the housing industry was also plagued by the high cost of borrowed money.

Despite an inflow of funds to savings institutions, mortgage interest rates remained high. For buyers, increased costs are a serious deterrent to home purchase and a real problem to builders trying to liquidate their inventories. It is estimated that it will take another six to 12 months to work off the existing housing stock.

The early 1975 crisis in the housing industry was also complicated by ecological considerations. Land use studies, zoning law changes and sewer extension moratoriums continue to proliferate, causing dislocations in raw land prices.

The situation with commercial and industrial construction was equally bad. Overbuilding of office space in urban centers, the troubled condition of real estate investment trusts generally and the wariness of lenders about financing growth that may not materialize all contributed to an unhealthy situation. In the first two quarters of 1975, these uncertainties dampened the kind of development that results in title insurance orders.

However, as the year drew to a close pent-up demand, especially in the single-family sector, combined with increased availability of mortgage funds, began to overcome the inhibiting factors, producing a higher level of activity.

In its efforts to adapt to rapidly changing market conditions, American Title is pursuing its options. This includes the aggressive solicitation of available title business, stringent expense control, tighter claims processing procedures and determined action to effect subrogated recoveries. This program is expected to help American Title remain profitable in a period when revenue gains may be modest. In 1976, the operative words are cautious optimism: a hope for substantial improvement tempered by a conviction that many problems remain to be solved in the real estate industry.

Review: Life Insurance Group

Life insurance satisfies one of the most basic needs of any society: the financial protection of the individual and his family. It does this in two ways. First, by protecting his earning power and the financial security that provides for his family. It is also a vehicle for savings, assuring thrift so that some part of what is earned can be accumulated for future use. Life insurance has an important place in the range of financial services offered by The Continental Corporation, and it will be increasingly important in the future. Your company participates in this long-term growth market by direct ownership of life insurers and through a large equity interest in the Franklin Life Insurance Company.

FINANCIAL HIGHLIGHTS

National-Ben Franklin Life Insurance Corporation

	1975	1974
(000 omitted)		
Premiums earned.	\$ 26,121	\$ 20,133
Pre-tax income . . .	\$ 2,399	\$ 2,665

The National Life Assurance Company of Canada

	1975	1974
(000 omitted)		
Life insurance in force:		
Individual	\$1,127,614	\$1,008,156
Group	3,890,155	3,431,460
Total	\$5,017,769	\$4,439,616
Pre-tax income . . .	\$ 3,564	\$ 1,799

National-Ben Franklin Life Insurance Corporation

National-Ben Franklin Life, headquartered in Chicago, operates in a variety of life, accident and health insurance fields. Its contribution to Continental's pre-tax income in 1975 was \$2.4 million.

Mass marketing, including group plans, constitutes the major portion of the company's writings. Premium income from this category totaled \$16.8 million last year, approximately 64 percent of premium volume.

Pension-related writings totaled a modest \$3.6 million in volume, or 14 percent of the total. This category of business, however, represents a major growth area over the next several years. Much of the company's current activity and marketing potential stem from ERISA — the Employee Retirement Income Security Act — passed by the Congress in 1974. ERISA has provided great impetus to the marketing of retirement income programs where National-Ben Franklin Life's cash value life insurance can play a major role.

Credit life and A&H premiums, produced mainly in conjunction with automobile sales, totaled \$4.7 million.

The fourth category, deferred compensation and life insurance provided to government employees on an allotment basis, accounted for \$1.1 million in writings in 1975.

National-Ben Franklin Life projects growth in both premium volume and profit in 1976 and the years beyond.

The National Life Assurance Company of Canada

National Life's before-tax operating income in 1975 reached \$3.6 million compared to \$1.8 million in 1974. Among the factors contributing to increased earnings were improved results from group life and health insurance, and reduced new business expense.

Sales of individual life policies declined 1.9 percent in 1975 to \$284 million. This represented an acceptable respite in the growth of business in the aftermath of having achieved one billion dollars of individual life insurance in force by 1974, one year ahead of the projected target date. It is expected that growth of new sales will resume in 1976.

The company's new data processing system, involving a comprehensive conversion of individual insurance accounting, is now in operation with only a few remaining refinements needed. The investment of time and money in this system was substantial but the company is now in a position to enjoy the benefit of improved efficiency and a greater service capability to policyholders and agents. During the last quarter of 1975 National Life introduced new products to meet the new and growing market for tax-deferred individual retirement annuities. Initial market reaction to the new products in both Canada and the United States has been favorable raising the expectation that they will become increasingly important in National Life's marketing activities.

Expanded market penetration, increased volume of individual sales and continued profitability of group operations are anticipated for 1976. Results should be consistent with the company's long term pattern of growth and profit.

Review: Reinsurance Group

Insurers often find it necessary or advantageous to reinsurance a portion of the risks they write, because an individual risk may represent more liability than the insurer is willing to accept. Or, the potential aggregate loss on such liability might be too large for the company's reserves and surplus. Reinsurance also permits the insurer to write a greater variety of business while reducing geographic concentration of risk and minimizing his vulnerability to catastrophic loss.

FINANCIAL HIGHLIGHTS

The National Reinsurance Corporation

	1975	1974
	(000 omitted)	
Premiums written	\$77,772	\$61,757
Premiums earned	\$71,273	\$58,301
Losses and expenses..	76,353	64,141
Statutory underwriting (loss)	(5,080)	(5,840)
Adjustments to GAAP .	(2,270)	402
Adjusted underwriting (loss).....	(2,810)	(6,242)
Net investment income.	3,216	2,996
Pre-tax income (loss) for twelve months ended September 30, 1975 and 1974*.....	406	(3,246)
Pre-tax (loss) for three months ended December 31, 1975*.	(36)	
	\$ 370	\$ (3,246)
Net assets	<u>\$41,430</u>	<u>\$26,541</u>

The Security Reinsurance Corp., Ltd.

	1975	1974
	(000 omitted)	
Premiums written	\$25,240	\$22,198
Premiums earned	\$23,658	\$19,123
Losses and expenses..	25,184	19,853
Statutory underwriting (loss)	(1,526)	(730)
Adjustments to GAAP .	44	(902)
Adjusted underwriting profit (loss)	(1,570)	172
Net investment income	3,308	3,424
Pre-tax income for twelve months ended September 30, 1975 and 1974*	1,738	3,596
Pre-tax income for three months ended December 31, 1975*.	2,832	
	\$ 4,570	\$ 3,596
Net assets	<u>\$50,518</u>	<u>\$31,069</u>

*See Note 1 to Consolidated Financial Statements.

The National Reinsurance Corporation

The Security Reinsurance Corporation Ltd. (Bermuda)

National Reinsurance had pre-tax earnings of \$370,000. Written premiums increased to \$78 million for the twelve months ended September 30, 1975 from \$62 million for the corresponding period of a year ago. Written premiums for the fifteen months ended December 31, 1975 — see Chairman's letter — were \$99 million. National Re's combined loss and expense ratio of 103.9 percent was lower than average for the reinsurance industry. This underwriting loss reflects the fact that rate inadequacy, inflation and an excess of capacity, which plagued the primary market, also manifested themselves in the reinsurance business.

In large measure, reinsurers follow the fortunes of their client companies, the primary insurers. Primary insurance rates are trending upward to more realistic levels and unsound competition is lessening. This may presage a return to underwriting profit.

The preponderance of property business in National Re's risk portfolio is viewed as another positive factor. Rates for these classes are the first to respond to manifest rate inadequacy. Because property losses are settled fairly quickly, this business is less vulnerable to the debilitating effect of inflation which tends to undermine the adequacy of casualty reserves. Another element favoring National Re is a good mix of business from insurers that have been traditionally profitable in their local and regional markets.

National Re's overall favorable position was further enhanced in late 1975 by a \$10 million surplus contribution which will support substantially increased writings if the upturn in the primary market materializes.

The business outlook for 1976 is uncertain but many of the conditions necessary for an underwriting profit are at work in the market.

The year past was a good one for Security Reinsurance Corporation. Its pre-tax contribution to The Continental Corporation was \$4.6 million. Net written premiums increased to \$25 million for the twelve months ended September 30, 1975 from \$22 million for the corresponding period of a year ago. Net written premiums for the fifteen months ended December 31, 1975 were \$34 million. Underwriting results were more than satisfactory with a combined loss and expense ratio of 96.9 percent.

There was a fortunate absence of large catastrophe losses during the year. Reinsurance rates around the world have trended upward for property risks in the aftermath of the 1974 Darwin, Australia tornado losses. Capacity in the international reinsurance market is regarded as adequate except for marine insurance where inadequate rates and unsound competition have drastically reduced the possibility of profit. Security Re's risk portfolio is heavily oriented toward property insurance with approximately 65 percent of its business in this category. Marine and aviation insurance account for 20 percent of written premiums and casualty for 15 percent. While the company's business will grow, it is expected that its mix of business will stay about the same.

London Security Reinsurance Company, a subsidiary in its second year of operation, is beginning to achieve a degree of prominence in the U.K. market. In 1975, its gross written premiums reached \$12 million, most of which was retroceded to Security Re. The outlook for 1976 is optimistic with a continuation of the company's pattern of growth.

Review: Financial Services Group

The Continental Corporation owns three companies that provide financial services to individuals and to business firms. AFCO Credit Corporation finances insurance premiums and Capital Financial Services Inc., is in the consumer finance business. The Diners' Club, Inc. offers billing convenience to companies and individuals. These companies are very much affected by the economy and by the prime rate. The ability to borrow money at attractive rates, and to successfully underwrite credit are important factors in their success. The long-term growth and profit potential of these companies is good. They afford diversity to Continental's operations and contribute to stability of earnings.

FINANCIAL HIGHLIGHTS

The Diners Club Inc.	1975	1974
	(000 omitted)	
Revenues	\$ 66,453	\$ 61,541
Provision for doubtful accounts	8,326	4,278
Interest expense.....	6,091	5,950
Other expenses	51,610	49,136
	66,027	59,364
Foreign exchange losses	426	2,177
Provision for judgment	867	
Pre-tax income (loss)	\$ (1,200)	\$ 2,177
Net assets	\$ 24,927	\$ 27,146
 Capital Financial Services, Inc.		
	1975	1974
	(000 omitted)	
Revenues	\$ 53,412	\$ 57,221
Operating expenses..	29,174	29,993
Operating income....	24,238	27,228
Interest expense.....	17,587	23,377
	6,651	3,851
Income of life co.	1,767	1,612
Pre-tax income	\$ 8,418	\$ 5,463
Receivables—net ...	\$264,588	\$299,367
Net assets	\$ 58,392	\$ 57,429

AFCO Credit Corporation and CAFO, Ltd.	1975	1974
	(000 omitted)	
Revenues	\$ 25,361	\$ 21,628
Operating expenses..	9,335	7,656
Operating income....	16,026	13,972
Interest expense.....	10,309	12,922
Pre-tax income	\$ 5,717	\$ 1,050
Loans receivable—net	\$167,491	\$151,166
Net assets	\$ 21,564	\$ 19,153

The Diners' Club Inc.

The year past was an eventful one for Diners' Club as it celebrated its twenty-fifth year of operation and also became a wholly-owned subsidiary of The Continental Corporation.

It was also a year in which the company recorded a loss on its operations. There were two negative factors. The first was an adverse legal judgment of \$759,000 stemming from litigation against Diners' instituted several years ago. The second item of loss was caused by balance sheet statements of overseas subsidiaries which became devalued.

The recessionary condition of the economy caused Diners' to limit memberships and potential loss through bad debts. Stricter underwriting of credit resulted in cancellation of delinquent members for non-payment. Similarly, new memberships were also limited in number reflecting a more restrictive attitude toward extending credit.

Diners' Club's principal sales promotion effort for new membership was directed toward developing corporate accounts.

Diners' overseas operations continued to grow in new members. There are now more than 1,250,000 cards overseas which are issued through 38 franchises operating in more than 140 countries. The oldest Diners' franchise, which was formed in 1951, is in the United Kingdom. The most recent franchise is in Kuwait. Diners' Club cardholders overseas are an affluent group with an average income of about \$35,000 a year.

Convenience cards like Diners' have a good future despite competition from bank credit cards. The image and acceptability of the Diners' Club card has not diminished in recent years even though sales promotion had to be curtailed because the effort to restructure the company and reorganize its administrative operations took priority. Given an upturn in the economy, Diners' Club operations should again be a contributor to corporate earnings. We believe Diners' long term prospects for growth and profit are good.

Data Processing at Diners':

ONE GIANT STEP FORWARD

A financial services company of almost any size must have an accurate, high-speed data processing capability. Diners' Club has such a system but five years ago the situation was dramatically different. Too often, members were not billed for goods and services charged, or they were billed long afterwards, causing them a high degree of aggravation and generating thousands of complaints. Worse yet, delinquent non-payments added up to millions of dollars.

New management's first steps in rectifying this situation were taken at the end of 1970 when all data processing operations were centralized in Denver. In mid-1971, Diners' was converted to a new and more disciplined system to produce faster, more accurate billings. The new system also included provision for cardholder credit authorization and verification.

The last element in the new system produces accounting reports which allow management to monitor each aspect of the company's performance. This data processing system has a large capability. Each month more than 500,000 statements are mailed to members reflecting more than one million charge items. Payments are made to more than 18,000 business establishments weekly.

If a member has a complaint or question about his billing, he need only telephone one of Diners' regional offices and his problem in most instances can be resolved promptly. Service representatives have immediate access to the computer's memory through a televideo screen which displays all transactions on the member's account.

Today, Diners' data processing capabilities contribute importantly to the efficiency of the company's administrative operations. The substantial investment in time and money was worthwhile and a necessary step in the restoration of the company.



R. Newell Lusby
Diners' Club President

NBC's TODAY SHOW featured R. Newell Lusby, Chairman of the Board and President of Diners' Club. The television appearance was part of the company's effort to educate consumers on the proper use of credit.

Diners' data processing center in Denver has greatly increased the efficiency of the company's administrative operations. These televiwing screens give immediate access to accounting records necessary for the efficient processing of work.

Capital Financial's new home office in suburban Columbus, Ohio is the nerve center of the company's system of 344 branch offices. All home office functions have been consolidated in these new quarters increasing efficiency while providing a work environment that enhances employee morale.



Capital Financial Services, Inc.

This was an eventful year for Capital Financial. Pre-tax earnings for 1975 increased to \$8.4 million, a gain of 54 percent over the preceding year. The decrease in short term interest rates was a principal factor in this result. Loan demand declined sharply in 1975. The volume of loans made and sales finance contracts purchased was \$196.7 million compared with \$240.6 million in 1974.

The apparent reluctance on the part of consumers to obligate themselves for new debts during a time of economic recession, coupled with their efforts to repay existing debts as quickly as possible, resulted in reductions in outstanding receivables. Uncollectable accounts written off in 1975 remained at about the same rather high level as prevailed in 1974.

At year-end 1975, Capital Financial had 344 branches, all linked to a central computer through a new telecommunications system. Computer terminals in each office calculate loan rates, print out necessary loan documents and provide all kinds of information helpful in monitoring the company's performance. Economies in operations and improvements in customer service are now being realized from this system.

In the year past Capital Financial moved to its new home office in suburban Columbus. All operations are now under one roof in a modern, efficient structure. This move was achieved at a cost substantially below the amount which would have been required to remain in the company's old location.

Stable interest rates in 1976 will be good for Capital Financial and money will be available for lending. If the customer feels confident in the health of the economy and his own employment prospects, he will begin to borrow. Improved economic conditions should also cause an improvement in the delinquencies and bad debt situation. Continued growth and profit is anticipated for Capital Financial.

AFCO Credit Corporation

The past year was a very successful one for AFCO in the United States and CAFO operating in Canada. The volume of premiums financed increased by 25 percent to \$533 million, up from \$425 million in 1974. Pre-tax income increased to \$5.7 million, a gain of \$4.6 million over the previous year.

A number of positive elements, in addition to the substantial volume increase, contributed to this satisfactory result. During the year, the average cost of borrowed money declined. Interest rates were reduced making premium financing more attractive to financial officers concerned about the most effective use of corporate funds. Banks competed less strongly as they found that their funds would yield more if invested in other operations. In addition, increased premiums for many insureds made premium financing a more attractive alternative in 1975. All of these factors, plus increased efficiency and strict expense control, contributed to the improved results.

In 1976, the two companies will seek to further increase their volume of premium finance business. With favorable money market conditions, the outlook for the year is good.

Review: Insurance Services Group

Continental's Insurance Services Group consists of independent profit centers created from corporate service functions. Underwriters Adjusting Company, an existing independent service, and the claims staff of The Continental Insurance Companies were combined in 1969. Since then UAC has expanded its operations considerably and now has more than 400 offices countrywide serving a large number of independent insurance companies. INSCO Systems Corp. was organized in 1969 as a spin-off of Continental's data processing operations. This company has also prospered, emerging as a market leader in data processing services to small and medium-sized insurance companies.

FINANCIAL HIGHLIGHTS

The INSCO Systems Corporation

	1975	1974
	(000 omitted)	
Revenues	\$ 29,197	\$ 24,009
Pre-tax income ...	\$ 6,187	\$ 2,976

Underwriters Adjusting Company

	1975	1974
	(000 omitted)	
Revenues	\$ 67,046	\$ 61,000
Pre-tax income ...	\$ 3,479	\$ 2,861

The INSCO Systems Corporation

INSCO Systems, Continental's data processing subsidiary, has grown soundly and profitably since its organization in 1969. The company's pre-tax income increased to \$6.2 million in 1975, a gain of \$3.2 million over 1974, while sales reached \$29 million, a gain of \$5 million.

This growth, we believe, is due mainly to INSCO's efficient use of capital and technology — an efficiency that allows INSCO to price its services to customers at a rate which is both competitive and profitable. Productivity gained by 10 percent during 1975 as measured by the volume of work produced, relative to its cost. This was accomplished with essentially the same configuration of equipment and people.

Sales to non-affiliated companies increased during the year to \$4.6 million, a gain of 21 percent over the previous year. This segment of business constitutes about 16 percent of total sales. One of INSCO's most important markets is small and medium-sized insurers who are attracted to the company's accumulated experience in dealing with automatic policywriting systems, policyholder billings, payroll processing and other accounting and statistical services. Customers outside the insurance business are also important in INSCO's profit picture. Services in this area include manufacturers' management systems, general business services for small commercial firms, and sophisticated personnel management systems for employers. We believe the business outlook for 1976 is good. In an economic environment where efficiency may be increasingly more important, INSCO's ability to supply services at competitive cost will be attractive to customers concerned about the prudent employment of capital.

Underwriters Adjusting Company

Underwriters Adjusting Company, a fast-growing independent adjusting company operating nationally, contributed \$3.5 million to the Corporation's pre-tax income in 1975, up 22 percent from the previous year. A wholly-owned subsidiary, UAC derives its income from three primary markets for its services: The Continental Insurance Companies, which accounted for 76.8 percent of UAC's billings in 1975; other insurance companies, 20.1 percent last year, and self-insurers, 3.1 percent. In total, revenues from companies outside the Continental organization were \$15.5 million in 1975, an increase of \$3 million.

The climate appears favorable for continued growth in all categories during 1976. Continental's writings will continue to rise. This will primarily reflect higher premiums but also the writing of additional coverage which, in turn, will result in additional claims assignments. Other insurers are also expected to turn more often to independent adjusting firms such as UAC as underwriting difficulties put pressure on them to control internal expenses. The heightened interest in self-insurance on the part of U.S. corporations will continue to offer UAC additional opportunities in that market. During 1976, the operations of the Quality Adjustment Service, Inc., division will be consolidated into a department of UAC. Quality, acquired in 1973, provides UAC a strong specialized auto physical damage capability. Continued upgrading of the professional staff is an important priority for the coming year. This will be reflected in accelerated recruiting as well as stepped-up internal training programs.

Review: Investment Operations

Portfolio management is part science and part art. It is science to the extent that it is a systematic study of all aspects of the national economy: economic, political and social. In addition, each investment, actual or potential, must be studied thoroughly as well. After a purchase is made, the investment must be monitored continuously for its own performance, as part of the larger economic scene and for its consistency with Continental's investment objectives. But successful portfolio management is sometimes more than a matter of facts. It requires an understanding of events and movements that transcend mere fact. It becomes an art, an informed intuition developed by long experience in this field. The hallmark of Continental's investment operations is conservative capital management. The stability of Continental's earnings has helped to maintain uninterrupted dividends to shareholders through the years.

The year 1975 opened with a great deal of uncertainty. The trauma of Watergate was only recently behind the country, and an unelected and untried president was in office. The national economy was going through a period of severe dislocation in the aftermath of the Vietnam war. Earlier economic policies had failed to dampen inflation and it became a double-digit phenomenon during the year. Fears were expressed about the stability of financial institutions in this country and Europe, business profits were declining, unemployment was increasing and huge government deficits were being created. Interest rates soared as well and deep concern was expressed about the viability of municipal government finances caught in a cash crisis. The stock market reflected these myriad concerns and came close to reaching the most recent low, recorded in 1962. Amid these uncertainties, Continental's net investment income increased to \$164 million, a record high and a gain of 11 percent. There were no major changes or liquidations in Continental's investment portfolio during the year. Increased premium writings from Continental's insurance operations resulted in greatly increased cash flow. About \$296 million was put into a variety of new investments. Tax exempt bonds accounted for \$42 million of new money, taxable bonds about \$96 million and preferred stocks about \$32 million. Approximately \$122 million was placed in treasury bills, commercial paper and other short-term investments. This deployment of funds was dictated by the need for liquidity in the face of increasing insurance underwriting losses.

Continental has emphasized quality in its purchase of municipal debt securities and it has had no problem with defaults or bonds not paying interest. Continental has not had a prominent position in the debt obligations of New York City.

It has no city or state notes, no bonds in default, and less than \$3 million in city debt which will mature over the next three years.

The general condition of the economy resulted in fewer dividend increases during the year on Continental's holdings and some companies decreased their dividends. Even though Continental had more money to invest during the year, short term rates were lower as prime rates declined toward year end. Continental's earnings from companies where it has sufficient equity interest to take credit for them were also affected by the recession. The business and economic outlook for 1976 is somewhat more optimistic than might have been anticipated earlier. Inflation seems to be abating.

The nation's financial institutions now seem to be in much better shape with business failures in 1975 being viewed as individual events rather than as a malaise reflecting pervasive, underlying factors. Interest rates are expected to be stable which will have a good effect on the economy. Cash flow may not be as heavy during the year, but new investments will be enhanced by the high growth rate of premium writings in 1975. In all, the prospect for business during 1976 is good.

Purchases (and Sales) of Securities *

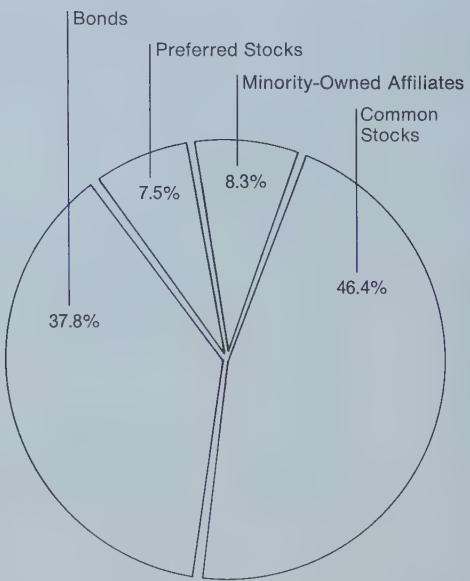
U.S. Government Bonds	\$ 18,833,033
Tax-Exempt Bonds	41,817,616
Other Bonds	76,914,861
Short-Term Securities	121,777,257
Pfd. Stocks	32,437,383
Purch. of Fixed Income Oblig.	291,780,150
Bank & Ins. Stocks	8,420,196
Public Util. Com. Stks.	378,412
Industrial Com. Stocks ...	(4,510,311)
Railroad Com. Stocks	301,746
Minority Interests	32,000
Purch. of Common Stocks	4,622,043
Purch. of Bonds & Stocks	\$ 296,402,193

*Excluding the effect of realized capital gains or losses.



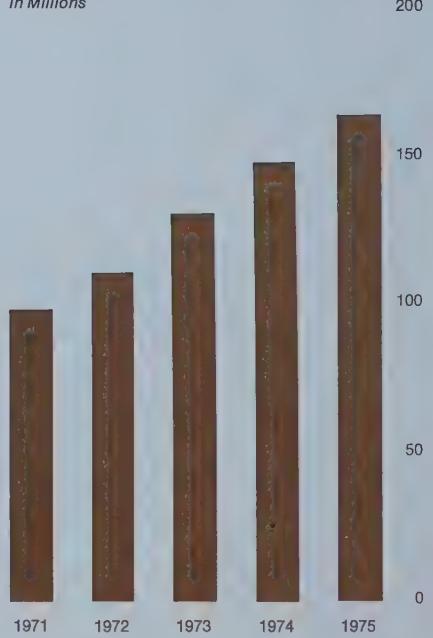
Executive Vice President Harold E. Johnson
is responsible for the investment operations
of The Continental Corporation.

DISTRIBUTION OF INVESTMENTS BY CATEGORIES



NET INVESTMENT INCOME BEFORE TAXES

In Millions



Financial Statements and Notes

1

Consolidated Income Statements

	Year ended December 31	
	1975	1974*
	(000 Omitted)	
Revenues		
Premiums Earned	\$1,798,043	\$1,499,235
Net Investment Income	163,991	147,441
Consumer Finance Revenues	78,773	78,849
Diners Club Revenues	66,453	61,541
Income From Other Sources	10,484	6,660
	2,117,744	1,793,726
Expenses		
Insurance Expenses	1,926,464	1,602,099
Consumer Finance Expenses	66,405	73,948
Diners Club Expenses	67,653	59,364
Other Expenses	2,190	3,181
	2,062,712	1,738,592
Income Before Income of Life Companies, Income Taxes and Realized Capital Losses	55,032	55,134
Income of Life Companies	7,730	6,076
Income Before Income Taxes and Realized Capital Losses	62,762	61,210
Income Taxes — Current	(7,526)	(32,812)
Income Taxes — Deferred	(17,330)	7,844
	(24,856)	(24,968)
Income Before Realized Capital Losses	87,618	86,178
Net Realized Capital (Losses) — After Taxes	(1,055)	(31,505)
Net Income	\$ 86,563	\$ 54,673
Per Common Share		
Income Before Realized Capital Losses (1)	\$ 3.29	\$ 3.24
Net Realized Capital (Losses)	(.04)	(1.25)
Net Income	\$ 3.25	\$ 1.99
Weighted Average Shares of Common Stock Outstanding	25,542,943	25,178,024

(1) After allowing for preferred dividends of \$3,662; 1974 — \$4,614.

*Restated to reflect the change made in 1975 in accounting for catastrophe losses.

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

	December 31	
	1975	1974*
	(000 Omitted)	
Assets		
Bonds — at Market Values (Cost \$1,129,638; 1974 \$875,254)	\$1,040,226	\$ 761,742
Preferred Stocks — at Market Values (Cost \$223,148; 1974 \$191,353)	205,922	153,703
Common Stocks — at Market Values (Cost \$519,307; 1974 \$523,560)	1,277,383	1,003,051
Investments in Minority Affiliates — Equity Basis	228,378	219,010
	Total Investments	
Cash	2,751,909	2,137,506
Premium Balances Receivable	139,904	121,029
Loans and Accounts Receivable, Less Allowance for Doubtful Accounts and Unearned Interest Income of \$87,104 (1974 — \$95,401)	271,664	223,942
Diners Club Receivables, Less Allowance for Doubtful Accounts of \$10,391 (1974 — \$11,368)	432,079	450,533
Accrued Interest and Dividends	116,457	114,507
Equity in Assets of Underwriting Associations	26,439	21,482
Federal Income Taxes Receivable	138,477	113,617
Deferred Acquisition Costs	17,667	55,101
Assets of Life Companies	209,637	189,576
Real Estate	370,214	333,537
Other Assets	101,156	93,488
	198,605	214,569
	Total Assets	\$4,774,208
		\$4,068,887
Liabilities		
Unearned Premiums	\$ 807,938	\$ 702,550
Outstanding Losses and Loss Expenses	1,434,548	1,194,018
Accounts Payable and Accrued Liabilities	110,943	96,188
Notes Payable and Other Borrowings	453,329	472,356
Accrued Retirement Plan Costs	52,083	50,812
Income Taxes Payable	3,085	6,709
Deferred Income Taxes	247,182	165,824
Funds Held Under Reinsurance Treaties	38,327	35,831
Liabilities of Life Companies	315,367	288,176
Other Liabilities	113,045	99,169
	Total Liabilities	3,575,847
		3,111,633
Shareholders' Equity		
Preferred Stock — \$4 Par Value	5,515	6,221
Common Stock — \$2 Par Value	52,067	51,679
Paid-in Capital	149,557	150,740
Retained Earnings	547,319	531,490
Unrealized Appreciation of Investments, Net of Deferred Income Taxes	457,184	230,405
Common Stock in Treasury, at Cost	(13,281)	(13,281)
	Total Shareholders' Equity	1,198,361
	Total Liabilities and Shareholders' Equity	\$4,774,208
		\$4,068,887

*Restated to reflect the change made in 1975 in accounting for catastrophe losses.

Consolidated Statements of Shareholders' Equity

(Dollar Amounts In Thousands)

	PREFERRED STOCK	COMMON STOCK			
	SHARES	AMOUNT	SHARES	AMOUNT	
Year ended December 31, 1974					
Balance at beginning of year	2,049,800	\$8,199	25,296,795	\$50,594	
Conversion of preferred shares into common shares	(494,670)	(1,978)	542,651	1,085	
Balance at end of year	1,555,130	6,221	25,839,446	51,679	
Year ended December 31, 1975					
Conversion of preferred shares into common shares	(176,505)	(706)	194,006	388	
Balance at end of year	1,378,625	\$5,515	26,033,452	\$52,067	
	PAID-IN CAPITAL	RETAINED EARNINGS	UNREALIZED APPRECIATION OF INVESTMENTS (1)	COMMON STOCK IN TREASURY	
	SHARES	AMOUNT	SHARES	AMOUNT	
Year ended December 31, 1974					
Balance at beginning of year, as previously reported	\$149,897	\$538,291	\$665,734	224,418	\$ 8,904
Adjustment for cumulative effect on prior years of retroactive application of the change in accounting for catastrophe losses		6,173			
Balance at beginning of year, as restated	149,897	544,464	665,734	224,418	8,904
Net Income		54,673			
Decrease in unrealized appreciation of investments			(435,329)		
Dividends:					
Preferred		(4,614)			
Common		(61,792)			
Additions to paid-in capital (2)	843				
Common stock purchased for treasury				266,038	7,929
Treasury stock issued for investments				(92,623)	(3,552)
Other changes (3)		(1,241)			
Balance at end of year	\$150,740	\$531,490	\$230,405	397,833	\$13,281
Year ended December 31, 1975					
Balance at beginning of year, as previously reported	\$150,740	\$531,004	\$230,405	397,833	\$13,281
Adjustment for cumulative effect on prior years of retroactive application of the change in accounting for catastrophe losses		486			
Balance at beginning of year, as restated	150,740	531,490	230,405	397,833	13,281
Net Income		86,563			
Increase in unrealized appreciation of investments			226,779		
Dividends:					
Preferred		(3,662)			
Common		(66,407)			
Additions to paid-in capital (2)	311				
Other changes (3)	(1,494)	(665)			
Balance at end of year	\$149,557	\$547,319	\$457,184	397,833	\$13,281

(1) At December 31, 1975, gross unrealized gains and gross unrealized losses pertaining to preferred and common stocks were \$796.7 million and \$55.9 million, respectively.

(2) Arising from conversion of preferred shares, net of cash paid in lieu of fractional shares.

(3) Equity in capital transactions of minority affiliates.

Consolidated Statements of Changes in Financial Position

	Year ended December 31	
	1975	1974*
	(000 Omitted)	
Bonds, Stocks and Cash — Beginning of Year	\$2,258,535	\$2,831,585
Funds Provided		
From Operations:		
Net Income	86,563	54,673
Charges (credits) to income not requiring funds:		
Increase in outstanding losses and loss expenses	240,530	119,509
Increase in unearned premiums	105,388	38,584
Increase in premium balances receivable	(47,722)	(22,689)
Increase in deferred acquisition costs	(20,061)	(9,130)
(Acrease) decrease in federal income taxes receivable	37,434	(55,101)
Increase (decrease) in deferred income taxes	(14,951)	9,595
Depreciation	11,643	11,596
Undistributed income of minority affiliates	(8,394)	(9,009)
Other	(26,401)	(16,299)
Funds Provided from Operations	364,029	121,729
Increase in unrealized appreciation of investments —		
before deferred income taxes	322,357	—
Investments acquired for treasury stock	—	3,552
Increase (decrease) in notes payable and other borrowings	(19,027)	9,069
Undistributed income of minority affiliates	8,394	9,009
Net liabilities of acquired companies, exclusive of cash and securities	—	19,535
Total Funds Provided	675,753	162,894
Funds Used		
Increase (decrease) in loans and accounts receivable	(25,778)	12,566
Purchase of treasury stock	—	7,929
Decrease in unrealized appreciation of investments —		
before deferred income taxes	—	610,604
Cash dividends	70,069	66,406
Increase in real estate and equipment	22,583	11,106
Changes in other assets and liabilities — net	(24,399)	27,333
Total Funds Used	42,475	735,944
Bonds, Stocks and Cash — End of Year	\$2,891,813	\$2,258,535
Increase (Decrease) in Securities and Cash Summarized as Follows:		
Increase (decrease) in securities resulting from purchases and sales — at cost (1)	\$ 282,678	\$ (36,751)
Increase in carrying value of minority affiliates	9,368	6,890
Increase (decrease) in unrealized appreciation — before deferred income taxes	322,357	(610,604)
Securities of acquired companies	—	33,721
Increase (decrease) in securities	614,403	(606,744)
Increase in cash	18,875	33,694
Net Increase (Decrease)	\$ 633,278	\$ (573,050)

(1) Purchases and sales (maturities) are summarized as follows:

	1975			1974		
	Purchases	Sales	Net Addition	Purchases	Sales	Net Reduction
Bonds	\$359,622	\$104,486	\$255,136	\$102,383	\$132,326	(\$29,943)
Preferred stocks	34,893	3,098	31,795	32,466	14,891	17,575
Common stocks	7,356	11,609	(4,253)	44,522	68,905	(24,383)
Total	\$401,871	\$119,193	\$282,678	\$179,371	\$216,122	(\$36,751)

*Restated to reflect the change made in 1975 in accounting for catastrophe losses.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies. PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Continental and all subsidiaries. Minority affiliates, The Franklin Life Insurance Company (27.5% owned) and Phoenix Assurance Company Limited (20.1% owned) are carried at cost plus equity in earnings as determined based on years ending June 30. The consolidated financial statements are presented in accordance with generally accepted accounting principles, except for the accounts of The National Life Assurance Company of Canada which are included on a statutory basis and which are not significant.

Prior to 1975, the accounts of the reinsurance subsidiaries, National Reinsurance Corporation and Security Reinsurance Corporation Limited, were consolidated based on years ending September 30; and the equities in the earnings of Phoenix Assurance were determined based on the previous years ending December 31. Since more current financial information has become available for the preparation of Continental's consolidated financial statements, in 1975 the accounts of the reinsurance subsidiaries have been consolidated as of December 31; and the equity in the earnings of Phoenix Assurance has been determined based upon the Phoenix accounts as of June 30. Accordingly, the consolidated results of operations for 1975 include the results of the reinsurance subsidiaries for the fifteen months ended December 31, 1975 and the equity in the earnings of Phoenix Assurance for the eighteen months ended June 30, 1975. The effect of this change in consolidation policy, which was implemented in the fourth quarter of 1975, was to increase income before realized capital losses by \$4.9 million (\$.19 per common share). The effect of the change was not material with respect to realized capital losses.

INVESTMENTS: Bonds and stocks are carried at quoted market values, except for investments in minority affiliates carried on the equity basis. The excess of market values over the cost of investments is included, after provision for deferred income taxes, in shareholders' equity in the consolidated balance sheets as unrealized appreciation of investments. The cost of investments sold is determined using the specific identification method.

PROPERTY/CASUALTY INSURANCE: Insurance premiums are reflected in income on a monthly pro-rata basis over the terms of the policies. Acquisition costs related to unearned premiums are similarly deferred by major underwriting lines and amortized to income over the periods in which the premiums are earned. The method followed in computing the deferred acquisition costs limits the amount of the deferral to its net realizable value by giving consideration to the effect of losses and loss expenses expected to be incurred as the premiums are earned. The deferral is then reduced by 2% of the unearned premiums to cover the anticipated costs of servicing the policies.

The liability for outstanding losses and loss expenses includes estimated provisions for the costs of investigation and settlement of all claims incurred prior to year-end. The liability, while believed to be adequate, is necessarily based upon estimates.

INTANGIBLE ASSETS: Goodwill, arising from the excess of the purchase price over the value ascribed to net tangible assets acquired prior to 1970, is not amortized unless, in the opinion of management, some diminution in value

occurs. In accordance with accounting principles established during 1970, goodwill arising from acquisitions subsequent to such date is amortized generally over a period of ten years.

INCOME TAXES: Provision is made for deferred income taxes relating to unrealized appreciation of investments and for certain expenses and revenues reported for financial accounting purposes in periods different than for income tax purposes. United States federal income taxes are accrued on undistributed earnings of foreign subsidiaries and minority affiliates.

RETIREMENT PLAN: The company has a non-contributory retirement plan for qualified officers and employees of Continental and certain of its affiliated companies. Provisions for earned benefits are principally made by contributions to trust funds or through balance sheet accruals and include amortization of prior service costs over a forty year period.

FOREIGN CURRENCY TRANSLATION: Foreign assets and liabilities are translated into their U.S. dollar equivalents at current rates of exchange. Translation gains and losses, which in the aggregate are not significant, are reflected in operations.

EARNINGS PER SHARE: Earnings per common share are computed based upon the weighted average number of common shares outstanding during the year after providing for annual preferred dividend requirements. Fully diluted earnings per share, assuming conversion of preferred stock, are not presented since the resultant dilution would be insignificant (less than 3%).

FINANCIAL SERVICES: Income from precomputed installment loans and retail installment contracts (Capital Financial Services) is recognized when cash is received (collection basis) using the effective yield method (sum-of-digits). The provision for losses on uncollectible accounts is based upon historical loss experience and adjusted for current trends in delinquencies and losses. Loans are written-off when they are deemed uncollectible or collection costs are excessive in relation to the outstanding balance; however, collection efforts are continued, and recoveries on loans previously written-off are credited to the allowance for doubtful accounts.

Income from installment loans arising from premium financing (Afco Credit) is recognized on the accrual basis using the effective yield method (sum-of-digits). Since the installment loans are almost completely collateralized by the unearned premiums held by insurance companies, the allowance for doubtful accounts is not significant in relation to the volume of loans outstanding.

The provision for doubtful accounts (Diners Club) is made in amounts sufficient to cover anticipated losses. Accounts are written-off when they are deemed uncollectible or when any portion of the unpaid balance becomes past due in excess of one year. Recoveries on accounts previously written-off are credited to the allowance for doubtful accounts.

TITLE INSURANCE: Title insurance premiums are recognized as income when the policies are issued. Provision is made for anticipated losses based upon past experience adjusted for current trends. The costs of building title plants prior to the time the plant is placed into operation and the costs of acquired title plants are capitalized.

Such costs are not amortized unless there is an indication of diminution in value. Current costs associated with the updating of title plants are expensed as incurred.

2. Accounting Changes. In accordance with Statement of Financial Accounting Standards No. 5, issued in March 1975, Continental, in the first quarter of 1975, changed its method of accounting for catastrophe losses in that such losses are charged to operations as incurred. During the three years ended December 31, 1974 catastrophe losses were provided for on a predetermined basis, and losses in excess of amounts normally anticipated in any one year were charged to the catastrophe reserve.

As prescribed by Statement of Financial Accounting Standards No. 11, which was issued in December 1975 as an amendment to Statement No. 5, the financial statements of prior years have been restated to reflect retroactive application of this accounting change. Had the catastrophe reserve program been continued, the provision for catastrophe losses would not have significantly affected net income for 1975. The effect of the accounting change on income before realized capital losses as previously reported for 1974 is as follows:

	1974 (000 Omitted)
Income before realized capital losses, as previously reported	\$91,865
Catastrophe losses charged to reserve — net of current year provision	(10,936)
Income tax effect	5,249
Income before realized capital losses, as restated	<u>\$86,178</u>
Per common share:	
Income before realized capital losses, as previously reported	\$3.46
Adjustment to reflect retroactive application of change in accounting for catastrophe losses	(.22)
Income before realized capital losses, as restated ..	<u>\$3.24</u>

In prior years, Continental's policy had been to reflect realized capital gains and losses as a separate caption in the income statement immediately following net income and preceding a separate caption entitled net income and realized capital gains and losses. In November 1975, the Securities and Exchange Commission revised Article 7 of Regulation S-X to require the inclusion of realized capital gains and losses as a separate caption preceding net income. Accordingly, the accompanying consolidated income statements have been presented in conformity with the requirements of Article 7, and the terminology as previously reflected in the 1974 income statement has been revised.

3. Diners Club. The carrying value of investments in and loans to The Diners Club, Inc. amounted to \$100.7 million and \$93.5 million at December 31, 1975 and 1974, respectively. In November 1975, Continental increased its ownership in the common stock of Diners from 88% to 100% through the payment of approximately \$300,000 to the then existing minority shareholders. The acquisition had no effect on consolidated net income for 1975. At December 31, 1975, Continental's investment (at cost) in Diners' common stock was \$40 million and \$78 million in preferred stock. During 1975, Diners increased its loans from Continental from \$47 million to \$56 million. The excess of the purchase price over the value of net assets acquired in the amount of \$19.7 million, which resulted from the acquisition of 88% of the common stock of Diners, is not being amortized as management believes that such excess costs continue to have a value of at least that amount.

4. Notes Payable and Other Borrowings. Notes payable and other borrowings are summarized as follows:

	1975	1974
Short-term:		(000 Omitted)
Consumer finance subsidiaries		
Notes payable	\$126,565	\$169,662
Commercial paper	94,772	69,451
	<u>221,337</u>	<u>239,113</u>
Parent Company and other subsidiaries		
Deposits of Savings and Loan Company	75,313	81,481
Notes payable	67,307	54,867
	<u>142,620</u>	<u>136,348</u>
Total Short-term	<u>363,957</u>	<u>375,461</u>
Long-term:		
Consumer finance subsidiaries		
Notes payable (5%-8%, due 1977-87)	67,310	72,800
Parent Company and other subsidiaries		
Notes payable (5%-8%, due 1977-98)	22,062	24,095
Total Long-term	<u>89,372</u>	<u>96,895</u>
	<u>\$453,329</u>	<u>\$472,356</u>

Short-term notes payable and commercial paper of the consumer finance subsidiaries averaged approximately \$223 million during 1975 and did not exceed \$232 million at any month end. The average interest rate at December 31, 1975 was 7.4% on notes payable and 6.1% on commercial paper. The weighted average interest rate on all short-term borrowings of this group of companies during 1975 was 7.6% (1974 — 9.4%).

5. Minority Affiliates. The equities in the earnings of minority affiliates are summarized below (000 Omitted):

	1975			1974		
	Franklin Life	Phoenix Assurance	Total	Franklin Life	Phoenix Assurance	Total
Dividend income	\$4,699	\$2,051	\$ 6,750	\$3,947	\$1,798	\$ 5,745
	6,017	2,377	8,394	5,823	3,186	9,009
Equity in undistributed earnings	10,716	4,428	15,144	9,770	4,984	14,754
	(1,767)		(1,767)	(1,577)		(1,577)
Equity in earnings, as included in net investment income	\$8,949	\$4,428	\$13,377	\$8,193	\$4,984	\$13,177

The investments in minority affiliates, with a quoted market value of \$151 million at December 31, 1975, are carried at \$228 million which exceeds underlying equity in their net assets

by \$113 million. In accordance with accounting principles in effect at the time of acquisition, such excess costs are not being amortized since there has been no diminution in value.

6. Capital Stock. At December 31, 1975 and 1974 there were 50,000,000 authorized shares of \$2 par value common stock of which 26,033,452 shares (1974 — 25,839,446 shares) had been issued and 25,635,619 shares (1974 — 25,441,613 shares) were outstanding.

At December 31, 1975 and 1974 there were 10,000,000 authorized shares of \$4 par value \$2.50 Cumulative Convertible Series A and Series B Preferred Stock of which 1,378,625 shares (1974 — 1,555,130) were outstanding. The preferred stock is convertible at anytime at the rate of 1.1 shares of common stock for each share of preferred stock. In the event of liquidation, the holders of preferred stock are entitled to receive \$50 per share; the aggregate liquidation value of the preferred shares at December 31, 1975 amounted to \$68.9 million. Continental may redeem the preferred shares at any time at a redemption price of \$50 per share, plus accrued dividends.

7. Income Taxes. Set forth below are the significant differences between the U.S. federal income tax rate (48%) and the effective tax rates as reflected in the accompanying consolidated income statements:

	1975		1974*	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income taxes and realized capital losses				
	\$ 62,762		\$ 61,210	
Less—undistributed income of minority affiliates.	(8,394)		(9,009)	
	\$ 54,368		\$ 52,201	
Computed "expected" taxes at 48% of above				
	\$ 26,097	48.0%	\$ 25,056	48.0%
(Reductions) in taxes resulting from:				
Tax-exempt interest	(19,576)	(36.0)	(16,278)	(31.2)
Dividend received deduction	(31,150)	(57.3)	(29,984)	(57.4)
Other items—net	(227)	(.4)	(3,762)	(7.2)
Total tax (credit)	\$(24,856)	(45.7)%	\$(24,968)	(47.8)%

The sources of timing differences and the related provision for deferred income taxes are as follows:

	1975		1974*	
		(000 Omitted)		
Deferred acquisition costs	\$ 9,300		\$ 4,253	
Retirement plan costs	3,186		1,023	
Taxes applicable to undistributed earnings of foreign subsidiaries and minority affiliates	2,864		1,945	
Reduction of deferred income taxes resulting from recognition of income tax carryforwards	(33,462)			
Other items	782		623	
	\$(17,330)		\$ 7,844	

*Restated to reflect the change made in 1975 in accounting for catastrophe losses.

At December 31, 1975, the Company had operating loss carryforwards available for federal income tax purposes of

\$51.3 million which expire in 1980 and foreign and investment tax credit carryforwards of \$8.9 million which are available through 1981. The tax benefit of such carryforwards has been recognized in the accompanying consolidated financial statements through the reduction of deferred income taxes. These deferred income taxes will be reinstated to the extent that the carryforward benefits are realized in future years.

The amount of federal income taxes receivable of \$17.7 million reflected in the accompanying consolidated balance sheet at December 31, 1975 represents the portion of the tax loss generated in 1975 which has been carried back to prior years.

Net realized capital losses are comprised of the following:

	1975	1974
	(000 Omitted)	
Net realized capital losses before income taxes	\$ (6,254)	\$ (45,061)
Income taxes (credit)	(5,199)	(13,556)
	\$ (1,055)	\$ (31,505)

8. Retirement Plan. Retirement plan costs for the year amounted to \$17.3 million (1974 — \$16.1 million). The actuarially computed value of vested benefits for the plan, as of the latest valuation date, was covered by accumulated trust funds and balance sheet accruals. The estimated amount of unfunded prior service costs is \$131.8 million of which \$52.1 million has been accrued.

The passage of "The Employee Retirement Income Security Act of 1974" will not have a substantial impact on the amount of annual pension expense, the funding of pension costs or the level of unfunded vested benefits.

9. Investment Income. Net investment income is comprised of the following:

	1975	1974
	(000 Omitted)	
Interest income — taxable	\$ 33,791	\$ 29,906
Interest income — tax-exempt	40,784	33,913
Dividend income	82,706	77,046
Real estate income	3,607	3,193
Undistributed income of minority affiliates	8,394	9,009
	169,282	153,067
Less applicable expenses	(5,291)	(5,626)
	\$163,991	\$147,441

10. Acquisitions. In January 1974 Continental completed the acquisition of 96% of the capital stock of Puerto Rican-American Corporation, an insurance holding company, involving an aggregate exchange of 284,011 shares of its common stock with a cost of \$11.3 million. In September 1974 Continental acquired all of the capital stock of First Insurance Company of Hawaii, Ltd. for \$19.2 million cash. These acquisitions have been accounted for by the purchase method and, accordingly, the operations of the companies have been reflected in the consolidated financial statements from the respective dates of acquisition. The excess of the purchase price over the net assets acquired in the foregoing transactions of \$7 million is being amortized by the straight-line method over ten years. The acquisitions did not significantly affect consolidated revenues or net income for the year ended December 31, 1974.

Report of Independent Public Accountants

PEAT, MARWICK, MITCHELL & CO.
345 PARK AVENUE
NEW YORK, NEW YORK 10022

The Board of Directors and Shareholders

The Continental Corporation:

We have examined the consolidated balance sheets of The Continental Corporation and subsidiaries as of December 31, 1975 and 1974, and the related consolidated income statements, statements of shareholders' equity and statements of changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Continental Corporation and subsidiaries at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis after restatement (see note 2).

February 27, 1976

Peat, Marwick, Mitchell - Co

Summary of Consolidated Pre-Tax Income by Source⁽²⁾

	1975	%	1974 ⁽¹⁾	%	1973 ⁽¹⁾	%	1972 ⁽¹⁾	%	1971	%
(000 Omitted)										
Property/Casualty Insurance	\$ 4,853	8%	\$20,654	34%	\$114,069	69%	\$139,997	78%	\$112,892	89%
Reinsurance	4,940	8	350	1	8,405	5	6,126	3	4,157	3
Title Insurance	3,119	5	2,442	4	4,440	3	3,838	2	2,418	2
Insurance Services	9,666	15	5,837	10	2,943	2	3,108	2	2,398	2
Consumer Finance	12,368	20	4,901	8	11,000	7	14,190	8	14,343	11
Consumer Credit (Diners) ..	(1,200)	(2)	2,177	3	2,474	2	(6,205)	(3)	(22,803)	(18)
Life Insurance	7,730	12	6,076	10	5,619	3	5,228	3	3,172	3
Minority Affiliates	15,144	24	14,754	24	13,455	8	10,838	6	9,136	7
Parent Company and Other .	6,142	10	4,019	6	1,973	1	1,567	1	1,041	1
	\$62,762	100%	\$61,210	100%	\$164,378	100%	\$178,687	100%	\$126,754	100%

(1) Restated to reflect the change made in 1975 in accounting for catastrophe losses.

(2) Before realized capital gains (losses).

Consolidated Summary of Operations

The Continental Corporation

Year ended December 31

	1975	1974 ⁽¹⁾	1973 ⁽¹⁾	1972 ⁽¹⁾	1971 ⁽²⁾
	(000 Omitted)				
Revenues					
Premiums Earned	\$1,798,043	\$1,499,235	\$1,386,195	\$1,339,116	\$1,329,077
Net Investment Income	163,991	147,441	129,872	111,194	98,769
Other Revenues	155,710	147,050	133,632	127,170	127,451
	2,117,744	1,793,726	1,649,699	1,577,480	1,555,297
Expenses					
Insurance Expenses	1,926,464	1,602,099	1,372,163	1,287,457	1,297,330
Other Expenses — Net	128,518	130,417	113,158	111,336	131,213
	2,054,982	1,732,516	1,485,321	1,398,793	1,428,543
Income Before Income Taxes and Realized Capital Gains (Losses)	62,762	61,210	164,378	178,687	126,754
Income Taxes	(24,856)	(24,968)	32,175	53,364	30,712
Income Before Realized Capital Gains (Losses) ..	87,618	86,178	132,203	125,323	96,042
Net Realized Capital Gains (Losses)—After Taxes	(1,055)	(31,505)	6,506	6,532	34,873
Net Income	\$ 86,563	\$ 54,673	\$ 138,709	\$ 131,855	\$ 130,915
Earnings Per Common Share					
Assuming No Dilution:					
Income Before Realized Capital Gains (Losses)	\$ 3.29	\$ 3.24	\$ 5.26	\$ 4.94	\$ 3.70
Net Realized Capital Gains (Losses)	(.04)	(1.25)	.27	.28	1.49
Net Income	\$ 3.25	\$ 1.99	\$ 5.53	\$ 5.22	\$ 5.19
Assuming Conversion of Preferred Stock:					
Income Before Realized Capital Gains (Losses)	\$ 3.23	\$ 3.17	\$ 4.88	\$ 4.55	\$ 3.49
Net Realized Capital Gains (Losses)	(.04)	(1.16)	.24	.24	1.26
Net Income	\$ 3.19	\$ 2.01	\$ 5.12	\$ 4.79	\$ 4.75
Dividends Per Common Share	\$ 2.60	\$ 2.45	\$ 2.28	\$ 2.00	\$ 1.86

(1) Restated to reflect the change made in 1975 in accounting for catastrophe losses — see Note 2 to the consolidated financial statements.

(2) Restated to reflect 10% stock dividend.

Management Discussion and Analysis of The Summary of Operations*

The consolidated earnings of Continental are, to a large extent, dependent upon the results of the property and casualty insurance subsidiaries, which contributed approximately 85% of consolidated revenues for the years 1971-1975. While the property/casualty group benefited from the uptrend in the underwriting cycle during 1971-1973, the year 1974 was adversely affected by severe catastrophe losses resulting from tornadoes in the midwest and increasing claims costs resulting from double-digit inflation. Although premium revenues increased 18.1% in 1975 (1974—8%), the continued effects of inflation and the mushrooming of litigation awards resulted in increased underwriting losses, particularly with regard to the worker's compensation, automobile and general liability lines. Accordingly, while net investment income continued to grow, strengthened by increased cash flow from the increased premium volume, the property/casualty group's pre-tax income fell to \$4.9 million in 1975, or 8% of the Corporation's consolidated pre-tax income, from \$20.7 million (34%) in 1974 and was sharply lower than the years 1971-1973 when pre-tax income exceeded \$100 million, or 69-89% of the Corporation's consolidated amounts.

In spite of the depressed insurance earnings, consolidated income before capital transactions increased to \$62.8 million (1974—\$61.2

million). The principal reason for the increase was the substantial earnings improvement of the consumer finance group. This group's pre-tax income increased to \$12.4 million (1974—\$4.9 million) principally as a result of a reduction in the cost of borrowed funds as interest rates fell from their peak levels in 1974 — see Note 4 to the financial statements. Additionally, the consolidated results for 1975 include a non-recurring credit of \$4.9 million — see Note 1 to the financial statements.

Realized capital gains were abnormally high in 1971 because of the sale of holdings in the Colonial Penn Group and, in 1974, capital losses were incurred which offset the 1971 gains for income tax purposes. The reasons for the difference between the U.S. federal income tax rate (48%) and the effective income tax rate reflected in the financial statements are described in Note 7 to the financial statements.

*The purpose of the above narrative is to provide a brief summary of the significant changes in the consolidated results of operations. The "Chairman's Message" and the "Review" sections, included elsewhere in the annual report, contain a more extensive analysis of the consolidated and subsidiary results.

Comparative Financial Data — Property/Casualty Subsidiaries⁽¹⁾

	Year ended December 31				
	1975	1974 ⁽²⁾	1973 ⁽²⁾	1972 ⁽²⁾	1971
(000 Omitted)					
Premiums Written	\$1,749,642	\$1,429,554	\$1,302,954	\$1,271,250	\$1,234,544
Premiums Earned	\$1,652,097	\$1,398,762	\$1,294,675	\$1,255,628	\$1,257,125
Losses	1,147,086	953,545	793,231	728,027	734,539
Loss Expenses	126,318	106,149	98,300	96,179	96,421
Commissions	295,632	245,582	220,407	218,123	211,331
Other Underwriting Expenses	203,519	179,645	160,033	153,929	157,793
	1,772,555	1,484,921	1,271,971	1,196,258	1,200,084
Statutory Underwriting Profit (Loss)	(120,458)	(86,159)	22,704	59,370	57,041
Dividends to Policyholders	10,631	8,493	7,846	6,816	8,000
	(131,089)	(94,652)	14,858	52,554	49,041
Adjustments to Generally Accepted Accounting Principles Basis (Credits):					
Deferred Acquisition Costs	(17,728)	(7,466)	(1,709)	(405)	17,524
Prior Service Pension Costs	8,823	8,208	9,853	11,908	9,075
Depreciation	4,397	3,673	3,124	2,013	1,238
Other	314	(884)	(3,684)	(7,637)	(7,691)
	(4,194)	3,531	7,584	5,879	20,146
Adjusted Underwriting Profit (Loss) (5)	(126,895)	(98,183)	7,274	46,675	28,895
Investment Income (4)	134,467	121,458	107,820	95,418	87,329
Investment Expenses	(2,719)	(2,621)	(1,025)	(2,096)	(3,332)
	131,748	118,837	106,795	93,322	83,997
Pre-tax Income (3)	\$ 4,853	\$ 20,654	\$ 114,069	\$ 139,997	\$ 112,892
Ratios					
Loss and Loss Expense	77.0%	75.8%	68.9%	65.6%	66.1%
Underwriting Expense	28.5	29.7	29.2	29.3	29.9
Combined	105.5%	105.5%	98.1%	94.9%	96.0%
At Year End					
Bonds and Stocks (Market Values)	\$2,310,108	\$1,791,182	\$2,376,108	\$2,509,983	\$2,140,043
Unearned Premiums	743,148	645,561	595,182	586,904	571,282
Outstanding Losses and Loss Expenses	1,391,803	1,158,387	1,023,025	919,313	821,642
Statutory Surplus	633,983	474,116	925,057	1,133,179	858,151
Premiums Written/Statutory Surplus	2.8/1	3.0/1	1.4/1	1.1/1	1.4/1

(1) Excludes reinsurance subsidiaries.

(3) Before realized capital gains (losses).

(2) Restated to reflect the change made in 1975 in accounting for catastrophe losses.

(4) Excludes equity in income of minority affiliates.

(5) The adjusted underwriting results reflect adjustments for deferred acquisition costs and for certain other expenses, as described above, which are charged directly to surplus on a statutory basis. Prior to 1975, these other expenses were reflected in pre-tax income as a separate line caption. The prior years' accounts have been reclassified for comparative purposes.

Summary of Investment Portfolio

CONSOLIDATED BOND AND MATURITY SCHEDULE Par Value (000 omitted)

	U.S. Government	Tax-Exempt	Other	Total	% Due in Period	% Due Cumula- tively
1976	\$ 3,203	\$ 8,897	\$ 223,261	\$ 235,361	20.3	20.3
1977	2,310	3,365	3,905	9,580	0.8	21.1
1978	4,500	3,311	12,384	20,195	1.7	22.8
1979	4,040	2,985	16,277	23,302	2.0	24.8
1980	765	6,993	7,432	15,190	1.3	26.1
1976-1980	14,818	25,551	263,259	303,628	26.1	26.1
1981-1985	10,120	31,730	32,912	74,762	6.4	32.5
1986-1995	1,286	188,876	53,664	243,826	21.2	53.7
Post 1995	150	500,266	37,345	537,761	46.3	100.0
Total	\$ 26,374	\$ 746,423	\$ 387,180	\$ 1,159,977	100.0	

DIVERSIFICATION OF BONDS AND STOCKS Market Basis (000 omitted)

	December 31, 1975		December 31, 1974	
Bonds				
U.S. Government	\$ 26,311	1.0%	\$ 6,005	0.3%
Govt. of Canada, Prov. and Local Govt. . .	58,990	2.1	43,692	2.1
Other Foreign Govt.	6,116	0.2	3,036	0.1
U.S. Govt. Agency	79,238	3.0	77,784	3.7
State	61,924	2.3	62,925	3.0
Local Government	63,915	2.4	71,578	3.5
Revenue and Special Obligations	403,299	15.0	344,321	16.5
Corporate	301,241	11.2	120,914	5.8
Total Bonds	1,001,034	37.2	730,255	35.0
Preferred Stocks				
Total Preferred Stocks	205,808	7.6	153,676	7.4
Common Stocks				
Automobile and Equipment	27,638	1.0	15,191	0.7
Bank	168,006	6.2	155,195	7.4
Building	11,783	0.4	10,552	0.5
Chemical and Drug	128,926	4.8	103,958	5.0
Communications	46,347	1.7	40,636	2.0
Electrical Equipment	14,715	0.5	11,199	0.5
Electronics	11,986	0.4	8,303	0.4
Finance	3,353	0.1	3,532	0.2
Food	20,952	0.8	17,521	0.8
Glass	23,285	0.9	15,421	0.7
Machinery	57,226	2.2	46,201	2.2
Non-Ferrous Metal	70,512	2.6	53,010	2.5
Office Equipment	152,383	5.7	114,800	5.5
Oil	155,225	5.8	128,798	6.2
Paper	48,557	1.8	30,751	1.5
Photography	66,819	2.5	39,629	1.9
Public Utility	131,328	4.9	98,882	4.7
Railroad	4,695	0.2	3,803	0.2
Retail and Apparel	24,683	0.9	15,976	0.8
Steel	26,053	1.0	20,667	1.0
Miscellaneous	291,513	10.8	269,102	12.9
Service Organizations	241	—	267	—
Total Common Stocks	1,486,226	55.2	1,203,394	57.6
Bonds and Stocks	2,693,068	100.0%	2,087,325	100.0%
Bonds and Stocks—Other Subsidiaries	58,841		50,181	
Total Bonds and Stocks	\$2,751,909		\$2,137,506	

Consolidated Portfolio of Bonds and Stocks

BOND SUMMARY

	Par Value	Market Value Dec. 31, 1975
	(000 omitted)	
United States Government	\$ 26,374	\$ 26,311
U.S. Government Agency	<u>92,681</u>	<u>79,238</u>
State, Local Government, Revenue and Special Obligations:		
State	\$ 80,759	\$ 61,924
Local Government	79,129	63,915
Revenue and Special Obligations.	<u>499,889</u>	<u>403,299</u>
Total State, Local Government, Revenue and Special Obligations	<u>659,777</u>	<u>529,138</u>
Government of Canada, Provincial and Local Government:		
Canada	\$ 24,480	\$ 21,015
Provincial	38,754	35,049
Local Government	<u>3,750</u>	<u>2,926</u>
Total Government of Canada, Provincial and Local Government	<u>66,984</u>	<u>58,990</u>
Other Foreign Governments:		
Dominican Republic	\$ 733	\$ 733
France	3,624	3,614
Jamaica	50	48
Japan	566	553
Netherlands	650	633
Panama	<u>600</u>	<u>535</u>
Total Other Foreign Governments	<u>6,223</u>	<u>6,116</u>
Corporate:		
United States	\$ 266,541	\$ 265,790
Canada	40,445	34,616
Japan	<u>952</u>	<u>835</u>
Total Corporate	<u>307,938</u>	<u>301,241</u>
Total Bonds	<u>\$ 1,159,977</u>	<u>\$ 1,001,034</u>

PREFERRED STOCK SUMMARY

	No. of Shares	Market Value Dec. 31, 1975
	(000 omitted)	
Railroad—United States	7,000	\$ 320
Railroad—Foreign	20,000	173
Total Railroad		\$ 493
Public Utility—United States	3,325,654	\$ 182,328
Public Utility—Foreign	59,549	1,671
Total Public Utility		\$ 183,999
Industrial—United States	511,690	\$ 20,632
Industrial—Foreign	41,789	684
Total Industrial		\$ 21,316
Total Preferred Stocks		\$ 205,808

COMMON STOCKS

AUTOMOBILE AND EQUIPMENT

Chrysler Corp.	21,715	\$ 220
Ford Motor Co.	35,766	1,574
General Motors Corp.	448,494	25,844
Total Automobile and Equipment ...		\$ 27,638

BANK

Banco Coml. de Mayaguez (P.R.)	2,875	\$ 92
Banco Credito y Ahorro (P.R.)	27,140	190
Banco de Ponce (P.R.)	19,939	319
Banco de San Juan (P.R.)	1,160	29
BancOhio Corp.	21,318	288
BankAmerica Corp.	124,920	5,309
Bank of Montreal	25,187	416
Bank of New York Co., Inc.	19,762	576
Bank of Nova Scotia	41,412	1,710
Bankers Trust New York Corp.	112,906	3,288
Bishop Investment Corp.	37,589	376
Canada Permanent Mtge. Corp.	1,575	26
Canadian Imperial Bank of Commerce.	55,000	1,397
Chase Manhattan Corp.	300,930	8,276
Chemical New York Corp.	103,050	3,117
Citicorp	1,662,512	49,044
Citizens & Southern Corp.	5,856	73
Citizens & Southern Natl. Bank, Ga.	164,184	1,026
Continental Illinois Corp.	139,067	4,954
Fidelity Union Bancorporation	134,506	3,480
First Banc Group of Ohio, Inc.	47,228	1,027
First Bankshares Corp. of S.C.	2,812	49
First Bank System, Inc.	21,800	894
First Chicago Corp.	367,788	6,666
First Hawaiian, Inc.	72,885	1,294
First Internat'l. Bancshares, Inc.	39,280	1,453
First Jersey Natl. Corp.	70,303	633
First Natl. Bank of Glens Falls	4,950	252
First Natl. Boston Corp.	54,000	1,242
First Natl. Holding Corp., Atlanta	16,744	209
First Natl. State Bancorporation	130,994	2,620
Glens Falls Natl. Bank & Trust Co.	9,250	259
Harris Bankcorp, Inc.	80,000	2,120
Hawaii Bancorporation, Inc.	102,468	1,102

COMMON STOCKS (Continued)

	No. of Shares	Market Value Dec. 31, 1975		No. of Shares	Market Value Dec. 31, 1975
(000 omitted)					(000 omitted)
BANK (Continued)					CHEMICAL AND DRUG (Continued)
					COMMUNICATIONS
Huron & Erie Mtge. Corp.	11,250	\$ 280	Warner-Lambert Co.	18,000	\$ 655
Manufacturers Hanover Corp.	862,406	25,010	Total Chemical and Drug		\$ 128,926
Mellon National Corp.	3,442	174			
Midlantic Banks, Inc.	105,708	1,823			
Morgan (J.P.) & Co., Inc.	416,408	22,278			
National City Corp.	34,540	1,002	American Tel. & Tel. Co.	878,184	\$ 44,678
National Detroit Corp.	12,500	500	Bell Tel. Co. of Canada		218
NCNB Corp.	8,000	78	British Columbia Tel. Co.	23,335	264
Pan American Bancshares, Inc.	20,000	105	Communications Satellite Corp.		211
Pittsburgh Natl. Corp.	10,000	277	General Tel. & Electronics Corp.	15,000	381
Royal Bank of Canada	63,000	1,913	International Tel. & Tel. Corp.		45
Seafirst Corp.	57,482	1,437	Pacific Tel. & Tel. Co.	40,000	550
Security Pacific Corp.	135,438	2,235	Total Communications		\$ 46,347
South Carolina Natl. Corp.	7,920	111			
Southeast Banking Corp.	83,802	922			
Toronto-Dominion Bank	79,405	1,553			
Trust Co. of Georgia	8,000	180	ELECTRICAL EQUIPMENT		
United States Bancorp.	20,000	377	Canadian General Elec. Co. Ltd.	4,000	\$ 96
United States Trust Co. of N.Y.	30,000	600	General Electric Co.	301,200	13,893
United Virginia Bankshares, Inc.	10,000	131	Westinghouse Elec. Corp.	54,300	726
Valley Natl. Bank of Arizona	78,799	1,320	Total Electrical Equipment		\$ 14,715
Wachovia Corp.	28,500	517			
Wells Fargo & Co.	26,566	412			
Western Bancorporation	53,250	965			
Total Bank		\$ 168,006	ELECTRONICS		
BUILDING			Hewlett-Packard Co.	31,000	\$ 2,930
Armstrong Cork Co.	116,600	\$ 2,828	Honeywell, Inc.	40,000	1,335
Johns-Manville Corp.	130,000	3,022	Perkin-Elmer Corp.	36,000	733
Mouldings, Inc.	600	—	Texas Instruments, Inc.	73,748	6,988
NL Industries, Inc.	96,900	1,260	Total Electronics		\$ 11,986
Sherwin-Williams Co.	61,000	2,013			
United States Gypsum Co.	160,000	2,660	FINANCE		
Total Building		\$ 11,783	C.I.T. Financial Corp.	110,000	\$ 3,204
CHEMICAL AND DRUG			IAC Ltd.	8,000	149
American Cyanamid Co.	110,000	\$ 2,736	Total Finance		\$ 3,353
American Home Products Corp.	270,000	9,011			
American Hospital Supply Corp.	66,600	1,973	FOOD		
Bard (C.R.), Inc.	3,000	41	Alexander & Baldwin, Inc.	112,500	\$ 1,856
Carter-Wallace, Inc.	50,000	350	Amfac, Inc.	178,500	2,745
Chesapeake-Pond's, Inc.	40,000	2,395	Amstar Corp.	200	7
Dow Chemical Co.	243,894	22,347	Beatrice Foods Co.	42,000	987
du Pont (E.I.) de Nemours & Co.	105,600	13,358	Borden, Inc.	115,000	3,062
Du Pont of Canada Ltd.	3,000	54	Brewer (C) & Co. Ltd.	2,377	41
Freeport Minerals Co.	90,000	1,946	Castle & Cooke, Inc.	48,413	796
Hercules, Inc.	216,000	5,940	Coca-Cola Co.	27,880	2,293
Johnson & Johnson	135,000	12,116	CPC International, Inc.	125,000	5,297
Lilly (Eli) & Co.	14,000	725	General Foods Corp.	45,800	1,265
Lubrizol Corp.	38,000	1,496	Kraftco Corp.	53,000	2,253
Merck & Co., Inc.	295,800	20,484	PepsiCo, Inc.	5,000	350
Monsanto Co.	82,693	6,316	Total Food		\$ 20,952
Pfizer, Inc.	121,000	3,343			
Sterling Drug, Inc.	155,000	2,887	GLASS		
Union Carbide Canada Ltd.	5,000	100	Corning Glass Works	195,250	\$ 8,493
Union Carbide Corp.	324,000	19,805	Libbey-Owens-Ford Co.	10,000	225
Upjohn Co.	20,000	848	Owens-Corning Fiberglas Corp.	66,700	2,852
			Owens-Illinois, Inc.	155,000	8,041
			PPG Industries, Inc.	103,866	3,674
			Total Glass		\$ 23,285

COMMON STOCKS (Continued)

	No. of Shares	Market Value Dec. 31, 1975		No. of Shares	Market Value Dec. 31, 1975
	(000 omitted)			(000 omitted)	
MACHINERY					
Babcock & Wilcox Co.	312,500	\$ 5,820			
Black & Decker Mfg. Co.	403,190	9,374			
Caterpillar Tractor Co.	417,600	29,128			
Deere & Co.	7,500	389			
Ingersoll-Rand Co.	133,500	9,345			
International Harvester Co.	141,659	3,170			
Total Machinery		\$ 57,226			
NON-FERROUS METAL					
Alcan Aluminium Ltd.	209,800	\$ 4,065			
Aluminum Co. of America	130,501	5,041			
AMAX, Inc.	37,500	1,772			
ASARCO, Inc.	221,330	2,905			
Cominco Ltd.	5,500	184			
International Nickel Co. of Canada Ltd.	231,000	5,986			
Kennecott Copper Corp.	67,200	2,075			
McIntyre Mines, Ltd.	22,800	895			
Newmont Mining Corp.	631,500	14,524			
Noranda Mines Ltd. A	108,600	3,109			
Phelps Dodge Corp.	210,134	7,617			
Rio Algom Mines Ltd.	6,600	190			
St. Joe Minerals Corp.	642,000	22,149			
Total Non-Ferrous Metal		\$ 70,512			
OFFICE EQUIPMENT					
Burroughs Corp.	1,600	\$ 134			
Digital Equipment Corp.	19,800	2,710			
International Business Machines Corp.	633,802	142,130			
Moore Corp. Ltd.	12,000	561			
Xerox Corp.	134,600	6,848			
Total Office Equipment		\$ 152,383			
OIL					
Atlantic Richfield Co.	5,000	\$ 452			
Cities Service Co.	99,761	3,866			
Comm. Oil Refining Co., Inc. (P.R.)	3,063	27			
Continental Oil Co.	140,000	8,522			
Exxon Corp.	530,091	47,046			
Gulf Oil Canada Ltd.	5,000	136			
Gulf Oil Corp.	905,050	18,554			
Hudson's Bay Oil & Gas Co. Ltd.	7,600	251			
Husky Oil Ltd.	7,500	131			
Imperial Oil Ltd. A	160,200	3,564			
Interprovincial Pipe Line Co.	10,000	114			
Louisiana Land & Exploration Co.	54,000	1,208			
Mobil Oil Corp.	25,150	1,188			
Norcen Energy Resources Ltd.	7,400	73			
Shell Canada Ltd. A	190,704	2,741			
Shell Oil Co.	224,120	10,982			
Siebens Oil & Gas Ltd.	5,250	56			
Standard Oil of Calif.	700,354	20,573			
Standard Oil Co. (Indiana)	206,000	8,781			
Texaco Canada Ltd.	5,000	150			
Texaco, Inc.	1,146,958	26,810			
Total Oil		\$ 155,225			
PAPER					
Champion International Corp.	185,000	\$ 3,376			
Crown Zellerbach Corp.	47,950	1,708			
Georgia-Pacific Corp.	62,145	2,618			
Great Northern Nekoosa Corp.	114,375	4,832			
International Paper Co.	173,813	10,038			
Kimberly-Clark Corp.	74,200	2,727			
Louisiana-Pacific Corp.	41,140	504			
Scott Paper Co.	87,817	1,284			
Union Camp Corp.	185,000	13,228			
Weyerhaeuser Co.	222,000	8,242			
Total Paper		\$ 48,557			
PHOTOGRAPHY					
Eastman Kodak Co.	629,624	\$ 66,819			
Total Photography		\$ 66,819			
PUBLIC UTILITY					
Alberta Gas Trunk Line Co. Ltd. A	33,600	\$ 388			
Allegheny Pwr. System, Inc.	82,320	1,523			
American Elec. Pwr. Co., Inc.	259,405	5,448			
American Natural Gas Co.	32,143	1,089			
Arizona Public Service Co.	15,000	236			
Baltimore Gas & Elec. Co.	222,898	4,959			
Brooklyn Union Gas Co.	60,000	983			
Canadian Utilities Ltd.	20,000	198			
Carolina Pwr. & Ltd. Co.	25,210	504			
Central Illinois Lt. Co.	138,260	2,299			
Central Illinois Pub. Serv. Co.	41,300	527			
Central & South West Corp.	208,456	3,596			
Cincinnati Gas & Elec. Co.	257,808	4,866			
Cleveland Elec. Illuminating Co.	166,732	4,418			
Columbia Gas System, Inc.	15,000	343			
Columbus & Southern Ohio Elec. Co.	8,000	184			
Commonwealth Edison Co.	208,792	6,316			
Consolidated Natural Gas Co.	167,916	4,093			
Consumers' Gas Co.	37,000	447			
Dayton Pwr. & Lt. Co.	173,000	3,071			
Equitable Gas Co.	20,000	592			
Florida Pwr. & Lt. Co.	20,000	537			
Gulf States Util. Co.	201,700	2,748			
Hawaiian Elec. Co., Inc.	12,681	290			
Houston Ltg. & Pwr. Co.	99,000	2,339			
Idaho Pwr. Co.	201,900	5,199			
Illinois Pwr. Co.	143,500	3,839			
Iowa-Illinois Gas & Elec. Co.	10,000	174			
Iowa Pwr. & Lt. Co.	78,750	1,782			
Kansas City Pwr. & Lt. Co.	102,278	2,646			
Louisville Gas & Elec. Co.	218,400	5,105			
Middle South Util., Inc.	56,500	819			
Montana Pwr. Co.	70,000	1,855			
New York State Elec. & Gas Corp.	149,560	3,608			
Northern Illinois Gas Co.	55,300	1,237			
Northern Natural Gas Co.	169,270	5,734			
Northern States Pwr. Co. (Minn.)	110,324	2,910			
Ohio Edison Co.	284,000	4,757			

COMMON STOCKS (Continued)

	No. of Shares	Market Value Dec. 31, 1975		No. of Shares	Market Value Dec. 31, 1975
	(000 omitted)			(000 omitted)	
PUBLIC UTILITY (Continued)					
Oklahoma Gas & Elec. Co.	39,300	\$ 884			
Pacific Gas & Elec. Co.	158,256	3,284			
Pub. Serv. Co. of Indiana, Inc.	114,700	4,531			
Pub. Serv. Elec. & Gas Co.	381,627	6,917			
San Diego Gas & Elec. Co.	2,000	22			
Southern California Edison Co.	92,012	1,806			
Southern Co.	131,400	1,938			
Tampa Elec. Co.	14,000	248			
Texas Util. Co.	91,300	1,906			
TransCanada PipeLines Ltd.	33,000	365			
Union Elec. Co.	33,775	452			
Utah Pwr. & Lt. Co.	164,460	4,523			
Virginia Elec. & Pwr. Co.	261,099	3,590			
Wisconsin Elec. Pwr. Co.	265,764	7,707			
Wisconsin Gas Co.	6,428	109			
Wisconsin Pub. Serv. Corp.	81,000	1,387			
Total Public Utility		\$ 131,328			
RAILROAD					
Canadian Pacific Ltd.	10,000	\$ 130			
Pitts., Ft. Wayne & Chic. Ry. Co., 7% ..	28	2			
Seaboard Coast Line Industries, Inc. .	21,000	433			
Southern Railway Co.	44,000	2,205			
Union Pacific Corp.	24,800	1,925			
Total Railroad		\$ 4,695			
RETAIL AND APPAREL					
Associated Dry Goods Corp.	72,000	\$ 2,475			
Dominion Stores Ltd.	10,000	175			
Federated Department Stores, Inc.	123,000	6,488			
Jonathan Logan, Inc.	2,500	33			
Marshall Field & Co.	60,000	1,403			
Penny (J.C.) Co., Inc.	222,000	11,128			
Sears, Roebuck & Co.	36,000	2,322			
Simpsons Ltd.	12,000	85			
Winn-Dixie Stores Inc.	15,000	574			
Total Retail and Apparel		\$ 24,683			
STEEL					
Algoma Steel Corp. Ltd.	2,596	\$ 63			
Armco Steel Corp.	25,000	678			
Hanna Mining Co.	86,826	3,885			
Inland Steel Co.	207,500	8,456			
Mesabi Trust	105,000	1,076			
National Steel Corp.	290,000	11,020			
Republic Steel Corp.	20,100	545			
Steel Co. of Canada Ltd.	12,000	312			
United States Steel Corp.	276	18			
Total Steel		\$ 26,053			
MISCELLANEOUS					
ACF Industries, Inc.	2,500	\$ 96			
Alte Leipziger Ver. Akt. A	445	97			
Alte Leipziger Ver. Akt. B	550	120			
Alte Leipziger Ver. Akt. C	11,500	2,499			
Anheuser-Busch, Inc.	70,200	2,369			
Avon Products, Inc.	80,000	2,790			
Total Miscellaneous		\$ 291,513			
SERVICE ORGANIZATIONS					
Underwriters Adjustment Bureau Ltd. .	400	\$ 40			
Underwriters Salvage Co. of Chicago .	265	27			
United States Salvage Association, Inc.	498	174			
Total Service Organizations		\$ 241			
Total Common Stocks		\$ 1,486,226			
Bonds & Stocks		\$ 2,693,068			
Bonds & Stocks-Other Subsidiaries		\$ 58,841			
Total Bonds and Stocks		\$ 2,751,909			

*Equity Value (See Notes to Financial Statements)

THE CONTINENTAL CORPORATION

CHARLES F. BARBER 1975
Chairman of ASARCO Incorporated, Metals Processing

EDWARD R. EBERLE 1971
Chairman of the Executive Committee,
Public Service Electric & Gas Company

JEROME H. HOLLAND 1972
Business Consultant and Former United States
Ambassador to Sweden

DONALD J. HURLEY 1970
Partner, Goodwin, Procter & Hoar,
Attorneys at Law

HAROLD E. JOHNSON 1972
Executive Vice President, The Continental Corporation

ALLEN T. LAMBERT 1968
Chairman of the Board, The Toronto-Dominion Bank

RALPH F. LEACH 1974
Chairman of the Executive Committee,
Morgan Guaranty Trust Company of New York

ROBERT D. LILLEY 1970
President, American Telephone and Telegraph Company

E. HERRICK LOW 1968
Honorary Vice Chairman of the Board,
United California Bank

MILTON W. MAYS 1969
Vice Chairman, The Continental Corporation

JOHN F. McGILLICUDDY 1975
President, Manufacturers Hanover Trust Company

R. E. McNEILL, JR. 1968
Retired Chairman of the Board,
Manufacturers Hanover Trust Company

PETER S. PAINE 1968
Chairman of the Executive Committee,
Great Northern Nekoosa Corporation, Paper Products

JOHN B. RICKER, JR. 1974*
President, The Continental Corporation

CLIFFORD D. SIVERD 1973
Retired Chairman of the Board,
American Cyanamid Company, Organic Chemicals and Consumer Products

NATHAN H. WENTWORTH 1968*
Chairman of the Board, The Continental Corporation

F. PERRY WILSON 1972
Chairman of the Board and Chief Executive Officer,
Union Carbide Corporation, Electronics, Plastics and Gases

GEORGE G. ZIPF 1971
Chairman, President and Chief Executive Officer,
The Babcock & Wilcox Company, Energy Equipment and Machinery

THE CONTINENTAL CORPORATION

NATHAN H. WENTWORTH*
Chairman of the Board

MILTON W. MAYS
Vice Chairman

JOHN B. RICKER, JR.*
President

HAROLD E. JOHNSON
Executive Vice President

DAVID D. GRAY
Executive Vice President

JOSEPH F. MURPHY
Executive Vice President

BRUCE R. ABRAMS
Vice President and Director of Public Relations

GEOFFREY DAVEY
Vice President and Secretary

WILLIAM F. GLEASON, JR.
Vice President, Assistant Secretary, and Tax Counsel

LEIGHTON M. LOBDELL
Vice President and Treasurer

JOHN H. LOYNES
Vice President and Controller

LUKE D. LYNCH
Vice President and General Counsel

JOHN H. NORDLUND
Vice President and Personnel Director

(Date denotes year director was elected to board.)

*Note: On February 1, 1976, Mr. Ricker became Chairman of the
Board and President, succeeding Mr. Wentworth who was appointed
Chairman of the Executive Committee.

Senior Officers 1/1/76

THE CONTINENTAL INSURANCE COMPANIES

NATHAN H. WENTWORTH*
Chairman of the Board

MILTON W. MAYS
Vice Chairman

JOHN B. RICKER, JR.*
President

JOHN H. BRETHERICK, JR.
Executive Vice President

DAVID D. GRAY
Executive Vice President

HAROLD E. JOHNSON
Executive Vice President

JOSEPH F. MURPHY
Executive Vice President

GEOFFREY DAVEY
Vice President and Secretary

LEIGHTON M. LOBDELL
Vice President and Treasurer

GEORGE T. KEYES
Vice President and General Counsel

JOHN H. LOYNES
Vice President and Controller

Senior Vice Presidents and Managers

HERBERT E. BROUGHTON
(Southeastern Department)

J. DEAN CASSIDY
(Canadian Department)

DONALD R. HAVERICK
(Buckeye Department)

H. DONALD LINDELL
(Foreign and International Departments)

ROBERT H. MORGAN
(Northeastern Department)

MAX R. NUNNERY
(Southwestern Department)

JOHN W. O'CONNOR
(Pacific Department)

ROGER S. OLSEN
(Western Department)

HOYT G. VOYLES
(Eastern Department)

Senior Vice Presidents

WILLARD A. DAVIS
WOODLEY D. GORDON
ROBERT K. RUESCH

Vice Presidents

BRUCE R. ABRAMS
HAROLD Y. BAIN
NORMAN J. BENNETT
C. BEN BUCK, JR.
JOHN W. DOWNS
JOHN D. GAERTNER
WILLIAM F. GLEASON, JR.
ROYAL E. GORDON

G. ROGERS HAINES
DAVID L. HARDIN
HORTON S. HICKERSON
F. PRESCOTT JUMPER
R. NEWELL LUSBY
LUKE D. LYNCH
EDWIN MUELLER

ROBERT F. NABERS
JOHN H. NORDLUND
EDWARD A. O'NEILL
CLIFFORD H. PHILO
JOHN K. RECKTENWALL
GEORGE M. SILVIS, M.D.
JOHN L. WALLACE

Chief Executive Officers of Subsidiaries

DAVID D. GRAY
President, AFCO Credit
Corporation and CAFO Limited

FRANK B. GLOVER
President, American Title
Insurance Company

THOMAS A. HAEUSSLER
President, Capital Financial
Services, Inc.

R. NEWELL LUSBY
Chairman of the Board and
President, The Diners' Club, Inc.

FRANCIS B. WADELTON
President, The INSCO
Systems Corporation

ROBERT L. STEVENSON
Chairman of the Board and President,
First Insurance Company of Hawaii, Ltd.

JOHN A. POTTS
President, Marine Office-Appleton
& Cox Corporation

ROBERT F. EWALD
President, National-Ben Franklin
Life Insurance Corporation

JOHN A. RHIND
Chairman of the Board, The National Life
Assurance Company of Canada

JOHN R. ZECH
President, The National
Reinsurance Corporation

RAFAEL A. ROCA
President, Puerto Rican –
American Insurance Company

ROBERT A. BAKER
President, The Security
Reinsurance Corporation, Ltd.

WILLIAM D. THOMPSON
Chairman of the Board and
President, Underwriters
Adjusting Company

*On February 1, upon the retirement of Mr. Wentworth,
Mr. Ricker became Chairman of the Board and President.

**HIGH AND LOW MARKET PRICE
FOR STOCKS OF
THE CONTINENTAL CORPORATION**

COMMON	1975	1974
1st Quarter	38-32½	41⅓-35
2nd Quarter	43-35½	37-29½
3rd Quarter	42¾-34	31¼-23½
4th Quarter	45¼-37¾	34¾-24¼
\$2.50 CONVERTIBLE PREFERRED SERIES A		
1st Quarter	41½-36¾	45-39¼
2nd Quarter	47-38½	40½-32¼
3rd Quarter	46¾-37½	33¾-25¼
4th Quarter	49¼-41	37½-27½
\$2.50 CONVERTIBLE PREFERRED SERIES B		
1st Quarter	41¼-35¾	45-40¾
2nd Quarter	46½-38½	39¾-32
3rd Quarter	46¾-37½	33½-26½
4th Quarter	48¾-43¼	38¼-27½

TRANSFER AGENTS

Manufacturers Hanover Trust Company
4 New York Plaza
New York, N.Y. 10004

The Northern Trust Company
50 LaSalle St.
Chicago, Ill. 60690

United California Bank
707 Wilshire Blvd.
Los Angeles, Calif. 90017

REGISTRARS

First National City Bank
111 Wall St.
New York, N.Y. 10005

The First National Bank of Chicago
One First National Plaza
Chicago, Ill. 60670

Wells Fargo Bank
415 West 5th St.
Los Angeles, Calif. 90013

**STOCK EXCHANGE LISTINGS
(Symbol: CIC)**

New York, Midwest and
Pacific Exchanges

GENERAL OFFICES

80 Maiden Lane, New York, N.Y. 10038

ANNUAL MEETING

The annual meeting of shareholders
will be held Thursday, April 22, 1976
at 10:30 a.m. on the second floor of
80 Maiden Lane, New York, N.Y.
We sincerely invite you to attend.

The 10K as filed with the Securities and
Exchange Commission is available on
request by writing to the Public
Relations Department, The Continental
Corporation, 80 Maiden Lane,
New York, N.Y. 10038.

THE CONTINENTAL CORPORATION

80 Maiden Lane,
New York, N.Y. 10038

AFFILIATED COMPANIES – Majority Owned

AFCO CREDIT CORPORATION ■ AMERICAN TITLE INSURANCE COMPANY ■ APPLETON & COX, INC.
BOSTON OLD COLONY INSURANCE COMPANY ■ THE BUCKEYE UNION INSURANCE COMPANY ■ CAFO LIMITED (CANADA)
CAPITAL FINANCIAL SERVICES, INC. AND SUBSIDIARIES ■ COLUMBIA REAL ESTATE TITLE INSURANCE COMPANY
COMERCIAL ASEGURADORA SUIZO AMERICANA, S.A. (GUATEMALA) ■ COMMERCIAL INSURANCE COMPANY OF NEWARK, N.J.
THE CONTINENTAL INSURANCE COMPANY ■ THE DINERS' CLUB, INC. AND SUBSIDIARIES
THE DOMINION INSURANCE CORPORATION (CANADA) ■ EQUITABLE FIRE INSURANCE COMPANY
THE FIDELITY AND CASUALTY COMPANY OF NEW YORK ■ FIREMEN'S INSURANCE COMPANY OF NEWARK, NEW JERSEY
FIRST INSURANCE COMPANY OF HAWAII, LTD. ■ THE GLENS FALLS INSURANCE COMPANY
GLOBAL MARINE SERVICES, LTD. (CANADA) ■ THE INSCO SYSTEMS CORPORATION
KANSAS CITY FIRE AND MARINE INSURANCE COMPANY ■ THE LONDON SECURITY REINSURANCE COMPANY, LTD. (UNITED KINGDOM)
MARINE OFFICE-APPLETON & COX CORPORATION AND SUBSIDIARIES
NATIONAL-BEN FRANKLIN INSURANCE COMPANY OF ILLINOIS
NATIONAL-BEN FRANKLIN INSURANCE COMPANY OF MICHIGAN ■ NATIONAL-BEN FRANKLIN LIFE INSURANCE CORPORATION
THE NATIONAL LIFE ASSURANCE COMPANY OF CANADA ■ THE NATIONAL REINSURANCE CORPORATION
NIAGARA FIRE INSURANCE COMPANY ■ PACIFIC INSURANCE COMPANY
PUERTO RICAN-AMERICAN CORPORATION AND SUBSIDIARIES (PUERTO RICO)
ROYAL GENERAL INSURANCE COMPANY OF CANADA ■ SERVICIOS Y COMISIONES CONTINENTAL, S.A. DE C.V.
TEXAS TITLE GUARANTY COMPANY, INC. ■ THE TITLE INSURANCE CORPORATION OF PENNSYLVANIA
THE SECURITY REINSURANCE CORPORATION, LTD. (BERMUDA) ■ UNDERWRITERS ADJUSTING COMPANY

AFFILIATED COMPANIES – Not More Than 50 Percent Owned

ALTE LEIPZIGER VERSICHERUNG A.G. (GERMAN FEDERAL REPUBLIC) ■ ASSOCIATED AVIATION UNDERWRITERS
LA FENIX DE COLOMBIA, S.A. ■ FRANKLIN LIFE INSURANCE COMPANY ■ HAFEZ INSURANCE COMPANY, LTD. (IRAN)
INSURANCE CORPORATION OF IRELAND, LTD. (IRELAND)
INTERNATIONALE REASSURANTIE MAATSCHAPPIJ N.V. (THE NETHERLANDS)
LONDON GUARANTEE & ACCIDENT COMPANY OF NEW YORK ■ MALAYAN OVERSEAS INSURANCE CORPORATION (TAIWAN)
PANAMA INSURANCE COMPANY, INC. (PANAMA) ■ PAN MALAYAN INSURANCE CORPORATION (PHILIPPINES)
PHOENIX ASSURANCE COMPANY, LTD. AND SUBSIDIARIES (UNITED KINGDOM)
PHOENIX ASSURANCE COMPANY OF NEW YORK ■ PHOENIX BRASILEIRA CIA. DE SEGUROS GERAIS (BRAZIL)
PHOENIX CONTINENTAL, S.A. (BELGIUM) ■ PHOENIX LATINO, S.A. (SPAIN)
PHOENIX OF JAMAICA ASSURANCE COMPANY, LTD. (JAMAICA) ■ LA PRESERVATRICE, A.I.R.D. (FRANCE)
SEGUROS UNIVERSALES, S.A. (GUATEMALA) ■ SOCIETE NOUVELLE D'ASSURANCES DU CAMEROUN (S.N.A.C.)
SUD ATLANTICA COMPANIA DE SEGUROS, S.A. (ARGENTINA)
L'UNION NATIONALE SOCIETE GENERALE D'ASSURANCES DU PROCHE ORIENT S.A.L. (LEBANON)
LA VENEZOLANA DE SEGUROS C.A. (VENEZUELA) ■ VERZEKERING MAATSCHAPPIJ MINERVA N.V. (THE NETHERLANDS)